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EXCERPTS FROM "PRICE FORMATION
IN THE USSR NATIONAL ECONOMY"

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INTRODUCTION

The price policy as one of the spheres of the economic policy of the Communist Party and the Soviet Government is a reflection of the laws of economic development operative in a socialist society.

V. I. Lenin and I. V. Stalin substantiated and developed in every way the theses of Marxism on the objective nature of economic laws as applied to socialist production. They dealt a crushing blow to the subjective idealistic views on the nature of the economic development in a socialist society which amount to a negation of the objective economic laws under socialism.

The objective nature of economic laws however does not mean that the operation of these laws are inevitable, that they are carried out by some elemental inexorable force and are not subject to the influence of people. Society is not helpless in the face of economic laws. With an understanding and proper use of economic laws it can limit the sphere of operation of some laws, give free reign to other laws which call for recognition, learn how to apply economic laws with the full knowledge of the business at hand, utilize them in the interests of society, and thereby master and assume control over them.

The conscious utilization of the economic laws in the interests of a socialist society is manifested by the economic policy of the Communist Party and the Soviet Government. Reflecting the requirements of the objective laws of economic development, the economic policy of the Communist Party and the Soviet Government serves as a powerful factor in the utilization of these laws in the

interests of a socialist society, in the interests of building communism. To be successful the economic policy must first of all conform to all the requirements of the basic economic law of socialism. These requirements must be met also by the Soviet price policy.

The essential features and requirements of the basic economic law of socialism determining the substance of socialist production and all the major aspects and processes of its development were formulated by I. V. Stalin in the following manner: to secure the maximum satisfaction of the constantly growing material and cultural needs of the whole society through the uninterrupted expansion and perfection of socialist production on the basis of advanced technology.

Counterbalancing modern capitalist production which pursues the aim of securing maximum capitalist profit, socialist production is subordinated to the interests of society, of the individual, and to the satisfaction of his material and cultural demands. The basic contrast between the purposes of public production under capitalism and under socialism leads to basically divergent methods of realizing such aims. The aim of modern capitalist production is achieved through the exploitation, ruination, and impoverization of the bulk of the population of the particular country, the enslavement and systematic plundering of the peoples of other countries, particularly backward countries, and finally through wars and the militarization of the national economy which is used for securing the highest possible profits. The aim of socialist production is achieved by the uninterrupted growth and perfection of socialist production on the basis of advanced technology. Unlike

capitalist production which is characterized by fluctuations between prosperity and depression and vice versa, the socialist society maintains an uninterrupted growth of production. Instead of periodic interruptions in technological development accompanied by the destruction of the society's productive forces under capitalism, there is a constant perfection of production on the basis of advanced technology under socialism.

Backed by the Marxist-Leninist theory of reproduction, and developing it further in its application to a socialist economy, I. V. Stalin substantiated and formulated the economic law of the systematic and proportional development of the national economy under socialism in his book Ekonomicheskiye problemy sotsializma v SSSR [Economic Problems of Socialism in the USSR]. The substance of that law is that the socialization of the means of production under socialism produces the possibility and the objective necessity of a planned development of the national economy, that is, a proportionality in the development of every sphere of the national economy constantly maintained by society. "A constantly and consciously maintained proportionality would indeed amount to systematic planning" (Lenin, V. I., Soch. [Collected Works], Vol 3, page 545). The realization of that possibility and that objective necessity under socialism is achieved by way of a state-wide planning of the national economy, through the medium of economic plans reflecting the requirements of the law of systematic development of the national economy, and with the successful realization of these plans.

One of the most important problems of planning which is part of the economic policy of the leading organs of a socialist society

is to insure the proportional development of the national economy, to forestall and prevent any disproportions and to eliminate them whenever they arise.

The operations of the law of planned proportional development of the national economy can produce the desired effect if they are based on the fundamental economic law of socialism. The planning of a national economy "can achieve positive results only when the following 2 conditions are observed: (a) if it truly reflects the requirements of the law of planned development of the national economy and (b) if it conforms to all the requirements of the basic economic law of socialism" (Stalin, I. V., Ekonomicheskiye problemy sotsializma v SSSR, 1952, Gospolitizdat, page 41).

The law of value and such economic categories as value, price, cost, profit, turnover tax, and interest on credit continue to be operative within certain limits in a socialist society.

Unlike the basic economic law of socialism and the law of the planned and proportional development of the national economy, the law of value does not come under the economic laws originating under socialism on the basis of socialized means of production. The law of value is a law of commodity production. It originated together with commodity production as far back as the slave system and later was used in the service of the feudal society and capitalism. The operations of the law of value under socialism are due to the fact that commodity production and commodity distribution are to a certain extent retained in a socialist society.

The existence of commodity production under socialism is due to the fact that the development of socialist production under

present-day conditions is expressed in 2 forms, public and collective farm production. Under conditions of 2 forms of ownership the commodity exchange between industry and agriculture is as a rule expressed in the purchase and sale of goods. And wherever there are goods there is value and forms of value which means the operation of the law of value. However, inasmuch as the sphere of commodity production and circulation in the USSR is substantially restricted and embraces mainly industrial and collective farm consumer goods, the operation of the law of value is similarly restricted within very narrow limits.

The operation of the law of value under socialism is restricted only to the sphere of consumer goods circulation where it serves as an exchange and price regulator to a certain extent. However, since the consumer goods required to cover the expenditure of labor force are produced and handled under modern conditions as goods subject to the operation of the law of value, it is impossible to keep the law of value from affecting production as well. Since consumer goods are not simply distributed but are sold and bought for money, the share of the individual workers of a socialist society in public consumption is also expressed in money, that is, in wages. The existence of wages on the other hand is conducive to a situation whereby, first, the actual share of the individual workers of a socialist society in public consumption is closely linked to the level of consumer goods prices the formation of which is to a certain extent regulated by the law of value; and second, the conformity of the worker's share of public consumption to his share of socially useful work, that is the amount of his work spent on the production of goods under socialism is also measured in terms of money.

Thus the law of value, having been completely deprived of its role of production regulator under socialism, continues to exert a certain effect on production since the latter calls for an account of labor expenditure in terms of value (that is, money) and financial control over the operations of the enterprises. Even in the sphere of production of the means of production, subject to the price regulating operations of the law of value, it is still necessary to use various forms of value with a view to exercising a ruble control over the operations of enterprises, calculating production costs, settling financial accounts among enterprises, and determining prices.

Thus to the extent that the law of value continues to operate in the Soviet economy it is reflected in the economic policy of the leading organs of the socialist society. There are 2 different aspects to this question. It is known that the law of value is of an historically transitional nature. It is an historical concept bound up with the existence of commodity production. But commodity production and commodity distribution, according to Marxism-Leninism, will not exist under communism.

However there is another aspect of the effect of the law of value on production and that is that under modern conditions the law of value can and should be successfully used in the interests of a socialist society. The dialectics of the development of a socialist society consist of the fact that the preparations for the actual transition from socialism to communism, whose existence is incompatible with commodity production and commodity distribution, call for the utilization of such economic vehicles as Soviet trade and money.

While using the law of value in the interests of socialist production, the economic policy of the leading organs of a socialist society cannot fail to take into account the danger of spontaneous operations of the law of value as the law of commodity production and the necessity of keeping them under control inasmuch as they hamper the realization of the requirements of the law of systematic, proportional development of the national economy.

Thus when introducing collective farm trade in bread grain and other agricultural products, the Communist Party and the Soviet Government made a clear distinction between the 2 aspects of collective farm trade. Collective farm trade is necessary and useful under present-day conditions to the extent that it contributes to the expansion of the commodity turnover between the cities and villages, provides an additional source of income for the collective farms and farmers, and thereby increases the collective farmers' personal interest in strengthening the collective farm system and in expanding public wealth. However the wrong method of carrying out collective farm trade and unsatisfactory leadership of the collective farms can also produce a harmful effect, give rise of speculative tendencies among part of the collective farmers, and weaken their responsibility for meeting their obligations to the state. To prevent this negative aspect of collective farm trade from gaining the upper hand the leadership of the collective farms must be strengthened.

Let us take one more example. Self-sustaining operations are a method of managing enterprises by utilizing the operation of the law of value in the interests of the development of socialist production. But this method can be successfully used in the

interests of socialism only when self-supporting economic operations conform to the requirements of the law of systematic proportional development of the national economy and when they are subordinated to the interests of the state plan. Otherwise it may give free reign to the spontaneous operations of the law of value which are conducive to the substitution of narrow departmental commercial interests of various enterprises, administrations, and districts for statewide interests. Such departmental and local perversions, contradicting the interests of the state plan fulfillment, were pointed out in the principal report of the Central Committee to the Nineteenth Party Congress.

Consequently the utilization of the law of value in the interests of a socialist society means keeping in check the manifestations of its operation which contradict the demands of the law of the systematic proportional development of the national economy on the one hand and giving free reign and proper direction to the operations of the law of value which can be used in the interests of uninterrupted growth and perfection of socialist production on the other.

To make successful use of the law of value one must be familiar with the operations of the law of value, study them, and be able to take them into account in planning. Hence the growing importance of studying the price formation in the USSR, the objective regularity of the formation of prices, and their changes.

Price is a monetary form of commodity value. It originated in history together with commodity production and commodity distribution. The existence of prices in a socialist society is bound up with the existence, within certain limits, of commodity production and commodity circulation and thereby also with the law of value.

Inasmuch as price is a form of value, the formation of prices and the changes in their level cannot be arbitrary. The objective basis for such changes is in the final analysis represented by the changes in the necessary public expenditures on commodity production which are expressed in terms of money.

At the same time, the socialization of the means of production under the basic economic law of socialism and the law of the systematic proportional development of the national economy exert a profound effect on price fixing and on the nature of price changes under socialism.

First of all the socialization of the means of the production and the operation of the law of systematic proportional development of the national economy made it possible for the Soviet Government to introduce systematic price fixing in regard to the bulk of the national product. The Soviet Government is carrying out a planned price fixing under a price policy that provides for the systematic reduction of prices on goods produced by state enterprises. That policy reflects the essential requirements on the basic economic law of socialism.

The steady growth and perfection of production on the basis of advanced technology, peculiar to socialism, are conducive to a steady increase in the productive force of public work and the resultant reduction in public expenditures and production costs. Since socialist production is subordinated to the interests of society's demands, the advantages derived by society from the growing productivity of public work are expressed in price reductions. Price reductions in turn tend to increase the capacity of the domestic market, raise the effective demand for goods, and thereby also act as a stimulant to growing production.

Thus the systematic reduction of prices is an objective regularity in a socialist society. It is based on the assumption that the basic means of production belong to society as a whole and the purpose of public production is the maximum satisfaction of the needs of the entire society.

On the other hand a systematic reduction of prices under capitalism is unthinkable since it would stand in contradiction to the basic economic law of capitalism. Capitalism is familiar with forcible price drops, forcible and compulsory devaluation of capital in times of depression. It is familiar with the practice of dumping, a sharp weapon in the competition struggle for the market and the eventual domination of it but it does not and cannot be familiar with the practice of price reduction as a consciously and consistently implemented economic policy, since that would mean that capitalism would cease to be capitalism. Particularly characteristic of contemporary capitalism is systematic price hiking and rising living costs as one of the methods of plundering the peoples of "their own" and other countries.

Prices in a socialist society represent a form of value which is used in the most varied sectors of socialist economy, in the economic turnover of production means within the limits of the state production sector (wholesale prices), in the economic turnover of raw materials between the collective farms and the state industry (procurement prices) and in the distribution of consumer goods (retail prices). Prices in the USSR are used for the purpose of systematically increasing the real wages of workers and employees and the income of farmers by raising the purchasing power of the money, expanding the capacity of the domestic market

and organizing consumer demand, increasing commodity circulation, providing additional stimuli for higher production and lower costs and increasing the socialist surplus accumulation.

Prices are made use of in the process of drafting state plans and checking their implementation and computing the cost of production and circulation, as well as in the economic estimates of new construction projects.

The various possibilities of utilizing prices in the interest of a socialist society call for a knowledge and skill on the part of our economic and planning cadres in the handling of the instrument of prices. An inadequate familiarity with the operation of the law of value on the other hand reveals that our planners and economic workers are frequently unable to make proper use of the form of value expressed in prices or to grasp the right meaning of the price policy.

The elaboration of the theoretical problems of price formation in the USSR, the generalization of the practice of price planning and a thorough study of the Soviet price policy assume particular importance and significance under the present conditions of the development of the Soviet state in the light of the directives of the Nineteenth Communist Party Congress, calling for more attention to the exploitation of the still untapped reserves of mineral resources in the socialist economy, and the decisions of the September Plenum of the Central Committee of the Communist Party USSR "on measures for the further development of USSR agriculture," which provide for greater economic stimuli for increasing agricultural production.

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Making no claim to a complete and thorough treatment of such an exceptionally complicated problem as price formation in a socialist society, this book pursues the aim of elucidating some very important questions of implementing the Soviet price policy and the methods of its planning by generalizing the present practice of price formation in the USSR.

CHAPTER I. PRICES IN A SOCIALIST SOCIETY

The Marxist-Leninist economic theory teaches that price, as a category of commodity economy, represents the most developed monetary form of the value of goods. ". . . price," Marx points out, "is the monetary expression of value" (Marx, K., Kapital, Vol III, 1951, page 367).

This is how V. I. Lenin defined the correlation between the price and the value of goods: "The price is a manifestation of the law of value. Value is the law of prices, that is a socialized expression of the price concept" (Lenin, V. I., Soch. [Collected Works], Vol 20, page 181). Manifested in terms of prices is the first function of money as a measure of commodity value, which, as Marx says, "is to supply the commodity world with the material for expressing value, that is, the value of goods similar in volume, identical in quality, and comparable in quantity" (Marx, K., Kapital, Vol 1, 1952, page 101).

The price of a commodity does not directly represent value as a quantitative index of the working time expended but "as an exchange relation between a particular commodity and a monetary commodity not connected with it" (Ibid., page 109). And since this relation may express not only the value of a commodity but

also its availability the very form of the price presupposes a possible lack of quantitative coincidence of the price of a particular commodity and its value or a possible disparity between its price and its value.

Prices are based on the existence of commodity production, that production designed for the exchange of goods by purchase and sale through the medium of money. Wherever there are goods there is also value and price which is an expression of its monetary aspect.

The objective necessity for prices and the concrete forms which price formation assumes in a socialist society are accounted for first of all by the commodity production and circulation which still exist here within certain limits. The treatment of the problems of price formation in a socialist society is therefore bound up with the nature of commodity production and commodity circulation in the USSR.

Commodity Production and Commodity Circulation in the USSR

The Marxist-Leninist economic theory teaches that commodity production should not be confused with capitalist production. Capitalist production is the highest form of commodity production. Commodity production however does not necessarily and not always lead to capitalism. Commodity production is older than capitalist production. It existed under the slave system and served its interests but did not lead to capitalism. It existed under the feudal system and though it produced certain conditions for capitalist production did not lead to capitalism.

V. I. Lenin and I. V. Stalin discovered and validated the objective necessity and feasibility of utilizing commodity production, within certain limits, during the first phase of a communist society.

In his inspired works on "tax in kind" and "the cooperative plan" V. I. Lenin presented a detailed definition of the bases of the economic policy of the Soviet Government during the period of transition from capitalism to socialism, a policy designed to lay the foundation for a socialist economy and to bring about a complete victory of socialism over capitalism.

This is how Lenin defined the fundamental decisive problem of that policy, called the NEP [Novaya ekonomicheskaya politika -- New Economic Policy]: "... the establishment of a union between the new economy we began to build (very inadequately, very poorly, but we began construction just the same on the basis of a new socialist economy and a new type of production and distribution) and the peasant-type of economy embracing millions upon millions of peasants" (Lenin, V. I., Soch., Vol 33, page 241).

That is why, as Lenin pointed out, the all-round development of state and cooperative trade helped to supply the small farmers with better products and in greater quantities, faster and cheaper than before. That is why the elimination of any and all capitalists from commodity circulation became the most important economic problem of the Soviet Government at a certain stage of development.

"Trade," said Lenin, "is the 'link' in the historic chain of events during the transition phases of our socialist construction

of 1921-1922 to which we, the proletarian government and the leading communist party, 'should hold on at all costs.' If we get a sufficiently strong 'grip' on that link now, we will be sure to get hold of the whole chain in the very near future. Otherwise there is no way of taking possession of that chain or laying the foundation for socialist economic relations" (Ibid., page 89).

Lenin tied the utilization of commodity production, trade, and money to the problem of improving the personal material incentive of the workers for the construction of a new social system and the creation of a powerful socialist industry capable of leading the national economy to large scale socialist production.

Developing Lenin's thesis on the role of trade in the transition period between capitalism and socialism, I. V. Stalin exhaustively substantiated the objective necessity of utilizing commodity production, trade, and the monetary system in the interests of building socialism and the further development of the socialist economy toward communism.

Addressing the Fourteenth Party Congress, I. V. Stalin pointed out that the seizure of power by the working class and the concentration of the commanding economic posts in its hands will produce a basic change in the role of trade and money, a change from instruments of bourgeois economy into weapons of socialist construction.

Consistently implementing the economic policy of the Communist Party, the Soviet Government made successful use of trade and the monetary system, first, to restrict and eliminate, and then to completely liquidate the private capitalist elements from the

economy with a view to building a socialist society and systematically improving the welfare of the working class and peasantry.

The establishment of public ownership of the means of production and the resultant liquidation of the system of hired labor and exploitation did not and could not lead to the abolition of commodity production which remained as a necessary and quite useful element of the national economic system even in the socialist stage of development.

This of course does not necessarily mean that commodity production and commodity distribution under the conditions of victorious socialism should be identified with the commodity production and trade in the first stage of the NEP.

Commodity production under socialism is a special type of commodity production. It is production without capitalists, it is commodity production designed to contribute to the development and strengthening of socialist production. It deals primarily with the commodities of united socialist producers (government, collective farms, and cooperatives).

Commodity production and commodity turnover in a socialist society is based on the existence of 2 basic forms of socialist production, state or public production and collective farm production which cannot be called public. In state enterprises the means of production and the production output represent public ownership and belong to the state which is in full control over them.

In collective farm enterprises on the other hand while the basic means of production (land and machinery) belong to the state the production output is the property of the various collective

farms. The collective farms alone are in control of the kolkhoz output which is their property. But under the present conditions the collective farms are unwilling to dispose of their surplus products except as commodities in exchange for which they want to get the commodities they need. Thus the distribution of consumer goods can be carried out only in the form of commodity circulation through the medium of money. And wherever there is commodity production, that is, production designed for exchange through the medium of money, the law of value, value, forms of value, and particularly such forms of value as prices, becomes indispensable.

Unlike the situation under capitalism, commodity production in the USSR is of a universal nature. In view of such decisive economic conditions as public ownership of the means of production, the liquidation of the hired labor system, and the liquidation of the system of exploitation, commodity production under socialism is restricted to strictly defined limits.

First of all in a socialist society there is no room for commodities specifically designed for a capitalist market such as hired labor which is an embodiment of the system of exploitation of man by man under capitalism. Further, as a result of its nationalization the land is no longer an object of purchase and sale. Nor can the basic funds of the state enterprises be used as an object of trade. Finally, the means of production produced by our state enterprises and designed for use within the country cannot be classified as commodities.

The means of production and particularly the implements of production manufactured by the state industry are not sold. They are merely distributed by the state among its enterprises. They

are not even sold to the collective farms. There are no purchases or sales involved in the movement of production means among the government enterprises. When means of production are transferred from one enterprise to the other, the ownership of such means is retained by the state since the latter owns both the supplying and receiving enterprises.

As for the agricultural material supplied by the collective farms to the state industry, it is not a commodity at all. It cannot be fully classified as a commodity since it does not possess all the attributes of a commodity. In actual fact the collective farms' supply of agricultural material is characterized by a relinquishment of ownership peculiar to a purchase-and-sale transaction. The collective farms lose their ownership of the raw material while the state industry acquires such ownership. However, in view of the fact that the implements of production required for the production of agricultural raw materials and the production implements required for processing it come under public (state) ownership, the agricultural raw materials are not sold just to any customer. Agricultural raw materials are sold only to the state.

Only the consumer goods produced by state industry as well as the collective farm surplus products flowing into Soviet trade channels have all the attributes of commodities. They are sold to any customer freely, without any restrictions. Under the purchase-and-sale terms of such products, the seller loses his ownership of the product while the customer acquires such ownership and is free to dispose of the product as he sees fit. That is why the sphere of commodity distribution in the USSR mostly includes items of

personal consumption, consumer goods produced by the state enterprises and surplus collective products channeled into the trade network.

Value, Forms of Value, and the Law of Value Under Socialism

As long as a socialist society produces goods as commodities it preserves the existence of value and forms of value while the law of value continues to operate within certain limits. The conversion of labor into commodities means that these commodities can "reach the consumer and grant the right to the producer to get another social product which has assumed the shape of money, that is, which has been appraised from a qualitative and quantitative point of view" (Lenin, V. I., Soch., Vol 1, page 386). Through the medium of such a social appraisal of value, the socially and economically dissimilar expenditures of labor by the workers of the state industry and the collective farmers, embodied in their products, are reduced to a quantitatively similar, abstract type of labor. Thus, inasmuch as consumer goods in a socialist society are produced and circulated as commodities, the labor spent on their production represents the value of these commodities.

The value of a commodity, according to Marxism, represents materialized abstract human labor. That value is measured by the amount of the minimum labor-time spent, that is, the working time required for producing a certain amount of consumer value under the existing socially normal conditions of production and at the existing average level of skill and labor efficiency in a given society.

In the process of value production, the expenditure of the social minimum of working time is divided into (1) past labor embodied in the means of production used to produce a commodity and (2) current labor which is the producer of a new value.

The existence of value finds its reflection in the concrete economic reality of a socialist society in a number of forms. Among such value forms are price, cost, profit, turnover tax, interest on credit, etc. Since commodity production under socialism is a production of a special kind, it cannot but be conducive to a change in the role of the law of value and at the same time in the role of various value forms in a socialist economy, particularly in the contents and form of prices.

First of all the fact that commodity production in the USSR is kept within rigidly defined limits serves to restrict the sphere of operation of the law of value as a law of commodity production.

In a bourgeois society with its private ownership of the means of production, competition, anarchy of production, and overproduction crises, the law of value plays the part of production regulator. This is manifested in the fact that the changes in commodity prices and the related changes in the profit norms serve as a stimulus for the distribution of labor and the means of production among the various branches of production. Under such circumstances "supply and demand constantly determine commodity prices. They never coincide, but do so only accidentally. Production expenditures in turn determine the fluctuations of supply and demand" (Arkhiv Marks'a i Engel'sa /Marx and Engels Archive/, Vol IV, 1935, page 49).

In a socialist society the law of value ceases to play the part of production regulator.

In a socialist society, where there is no private ownership of the means of production and where the purpose of public production is the maximum satisfaction of the needs of the whole society, the movement of commodity prices and the related movement of profit norms cannot determine the distribution of labor and the means of production among the branches of the national economy. The leading organs of a socialist society secure the necessary proportions in the distribution of labor and production means among the branches of the national economy on the basis of the requirements of the law of systematic, proportional development and in conformity with the requirements of the fundamental economic law of socialism.

Within what limits then does the law of value operate in a socialist society? The sphere of operation of the law of value extends first of all to commodity distribution and commodity exchange through the purchase-and-sale method. This is expressed in the fact that the sphere of commodity distribution involves the existence of prices which are formed under the regulating effect, within certain limits, of course, of the law of value. The functions of the law of value however are not restricted to the sphere of commodity production alone. We also come across forms of value (prices, costs, profit, turnover tax, and interest on credit) in fields of socialist economy where goods are not produced as commodities, for example, in the production of the means of production. What are the economic circumstances that create the objective necessity of using value and its forms for measuring the amount of labor expended on the production of goods even when such goods no longer represent commodities?

The necessity of utilizing old forms for the construction of a new social system was exhaustively substantiated in a number of works by V. I. Lenin and I. V. Stalin.

The objective necessity of utilizing various forms of value and particularly prices within the state production sector of the economy, in the movement of the means of production among state enterprises, and for checking and judging the activities of every individual enterprise is bound up with the economic fact that the existence of commodity production and commodity circulation, within certain limits, cannot but indirectly affect socialist production as a whole, including the production of the means of production. This is precisely why it becomes necessary for the state production sector of the socialist economy to make use of the outward form of commodity-money relations in the interests of the planned management of the enterprises and the control over them.

The socialist method of production calls for strict control on the part of the society over the amount of labor and consumption in every enterprise. The socialist society establishes a direct interdependence between the results of each worker's labor and his share of the total public consumption by realizing the following principle in the production and distribution of goods: "from each according to his ability, to each according to his work." The socialist principle of distributing goods in accordance with the amount of and quality of labor involved presupposes, first, the use of the same measure to determine the amount of labor expended and the share of consumption and, second, the application of this measure as a single social measuring unit to all enterprises and workers of the socialist society. Since in the socialist stage a public accounting of labor expenditure cannot be measured

by working time alone, it is necessary to measure such labor expenditures in a round about, indirect method, through the medium of value and its forms. This accounts for the existence in the USSR, within certain limits, of commodity production and commodity distribution.

Since the consumer goods required to remunerate the labor used up in the process of production are produced and treated as commodities, it follows that the share of each worker of the state enterprises in the total public consumption is expressed in the form of money, in the form of wages. The existing objective necessity of establishing a direct interdependence between each worker's share in the total public consumption and the results of his labor in a socialist society in turn presupposes that the results of the work of individual workers and entire enterprises are also measured in money.

Thus a financial accounting of labor expenditure in the sphere of production is necessary, first, as a condition for determining exchange relations manifested in the sphere of distribution (remuneration of the full cost of consumer goods including compensation for the consumed means of production) and, second, as an instrument used by the state for controlling the expenditure of materialized and actual labor of every enterprise, for stimulating a reduction in such expenditures and for organizing a self-supporting system of economic activities.

Prices in a Socialist Economy

The operation of the law of value in the USSR in the present stage of socialist development is manifested in the form of prices

in the following fields of the socialist economy: (a) in the sphere of consumer goods distribution; (b) in the movement of agricultural raw materials between the collective farms and the state industry; and (c) in the movement of the means of production among state enterprises.

Due to the restriction of the sphere of commodity production and commodity distribution, as well as the sphere of operation of the law of value, the role of the law of value in the formation of prices is not the same in every sphere of socialist economy listed above. In the sphere of consumer goods distribution, the law of value acts as a regulator of prices on goods (within certain limits, of course; more about those limits later), while commodity production in the USSR under the existing 2 forms of socialist ownership represents 2 different markets, an organized market which handles vast quantities of goods made available by the state at stable prices and an unorganized market.

First of all let us see how the regulating function of the law of value affects the formation of prices on goods distributed through the organized market (state and cooperative trade). The goods distributed through the state and cooperative trade are sold at prices fixed by the government itself. The government however cannot arbitrarily determine the level of prices on goods.

The price level of goods distributed through the state and cooperative trade is essentially determined by the distribution of the combined national product and national income between surplus accumulation and consumption and between the total share of public consumption and the consumption share of the individual members of a socialist society. The Soviet state bases its price fixing on

the compensation for the public expenditure on the goods in question, on the compensation for their value. The point under consideration of course is the compensation for the cost of producing the goods as a whole within the limits of the total quantity of commodities distributed through state and cooperative trade, or the basic commodity groups, but not the precise coincidence of the price and value of every type of goods. As pointed out in the beginning of the chapter, the very form of the price is based on the dissimilarity between the price and value of a particular type of goods. The Soviet state takes this peculiar feature of price form into account and whenever necessary establishes prices on goods that are different from their value.

The regulative influence of the law of value cannot but affect to a certain extent the value correlations between different types of goods. Unlike the means of production, which are distributed directly among various enterprises, consumer goods are acquired by the consumers (the collective farms and population) through the free purchase of any consumer item. In view of the interchangeability of many types of material goods, the effective demand can, depending on the correlation between income and prices, be distributed in a variety of ways among various groups of goods. From this it follows that, first, prices of consumer goods cannot represent some isolated entities but form a system of prices interconnected by certain correlations based on the relation of goods to costs and, second, the establishment of prices on goods cannot be realized without taking the effective demand for them into account.

Spontaneous price fluctuations, typical of the capitalist commodity economy, have been completely eliminated from the organized market as a result of the socialization of the means of production in the towns and villages and the resultant emergence of the law of systematic and proportional development of the national economy. The anarchy of production peculiar to capitalist economy is manifested in the spontaneous and irregular movement of market prices which are constantly different from commodity values, coinciding with them only by way of exception. The law of value operates in this confused and chaotic situation of commodity prices only in the touch-and-go manner of the law of averages. The cyclic recurrences of capitalist production find their expression in the cyclic movement of commodity prices, rising prices during prosperity, and sharp and swift drops during depression.

In contrast to capitalism, one of the characteristic features of the economy of a socialist society is the planned establishment of prices on goods distributed within the sphere of operations of the organized market. The Soviet Government found it possible to fix prices on goods following the nationalization of industry, transportation, the land and the banks, the liquidation of private capitalist elements in the economy by socializing the means of production in industry and agriculture, the establishment of a monopoly on foreign trade, and the expansion of the sphere of operation of the law of systematic proportional development.

The commodities produced by the state enterprises are placed at the disposal of the Soviet state, the owner of these enterprises. The Soviet state also concentrates in its hands the major part of collective farm commodity production through government procurements,

contracts, and purchases as well as through the system of payments in kind for work performed by machine-tractor stations. Due to the foreign trade monopoly in the USSR, the imported as well as locally produced commodities are channeled into the organized system of socialist commodity circulation. Thus vast quantities of commodities, representing by far the largest part of the country's commodity circulation, is concentrated in the hands of the state.

Inasmuch as the bulk of the means of production is under the direct ownership of the Soviet state and used by state enterprises, and inasmuch as the state acquires the bulk of the collective farms' commodity output, the effective demand of the workers, collective farmers, and intelligentsia is determined primarily by their financial income received from the state (wages and salaries, farmers' income from the sale of agricultural products to the state, pensions, stipends, etc).

All this makes it possible for the state to take into account the objective laws of commodity and currency circulation and to establish the necessary conformity between the financial income of the population and the supply of goods at state prices. Finally, the determination of expenditures on state enterprises and the establishment of state prices on the agricultural products flowing to the state make it possible to plan the cost of producing and distributing the goods flowing into the state and cooperative trade, such planning being necessary for price fixing purposes.

Thus under conditions of commodity circulation in a socialist society a new type of price comes into being, a price hitherto unknown in history, a price fixed exclusively by the socialist state, a stable price not subject to spontaneous fluctuations.

Up to now we have been discussing the nature of prices under conditions determining their formation within the sphere of the organized market, state and cooperative trade. The existence of 2 forms of socialist ownership however is at present manifested also in the functioning of a collective farm market in addition to the state and cooperative trade. Part of the collective farm surplus is sold on that market. It is in that market also that the collective market disposes of part of their income in kind acquired from the materialized economy by way of the distribution of farm produce according to workdays, as well as from their private land allotments. The prices on the collective farm market are not fixed by the state but are adjusted by a mutual agreement between the sellers and buyers. Hence the spontaneous characteristics of the operation of the law of value on this market are manifested in the spontaneous fluctuations of prices according to the changing correlations between supply and demand.

Thus the existence of 2 markets in the sphere of commodity production of the USSR means the existence of 2 types of prices, different from each other in the nature and process of formation and also likely to differ in amount. The discrepancies between the state prices and those of the collective farm market create the possibility of a certain spontaneous redistribution of the population's income through the medium of the collective farm market. This possibility becomes a reality whenever a disparity arises between the demand for and supply of certain food products. That is why the range of differences between the state prices of foodstuffs and those of the collective market serves as an important indirect index of the situation of the state and cooperative trade in foodstuffs in various districts of the USSR.

The lack of direct planning of prices on goods circulating in the collective farm market however does not mean that the function of the law of value as a price regulator in that trade is not restricted at all. The basic and decisive position in commodity circulation is held by the state and cooperative trade. That is why the prices on the collective farm market are not isolated from or independent of the stable planned prices at which the bulk of the goods circulating in the country is sold. Making use of the law of value, the Soviet state exerts an influence on the price level of the collective farm market by disposing of the vast quantities of goods at its disposal at stable and progressively reduced state prices. The growing production of goods, the concentration of considerable foodstuff reserves in the hands of the state, and the all-round development of state and cooperative commodity turnover are the decisive means by which the state exerts an influence on the collective farm market and its prices.

The turnover of agricultural raw materials between the collective farms and the state industry is tied to the existing prices at which such raw materials are sold to the government. What do these prices represent? Do they exert any regulative influence on the law of value as in the case of the prices charged by the collective farms for their surpluses of consumer goods sold on the collective farm market?

Unlike the surpluses of consumer goods, agricultural raw materials are not sold by the collective farmers to just any customer. They are delivered only to the state.

I. V. Stalin points out that "the influence of the law of value on the price of agricultural raw materials cannot in any way

be of regulative nature. First, our prices on agricultural raw materials are stable, fixed by a plan and not 'free.' Second, the volume of agricultural raw material production is determined not spontaneously nor by any accidental elements but by a plan. Third, the means of production required to produce agricultural raw materials are not owned by any individuals or groups of individuals but by the state. What happens then to the regulative role of the law of value? It appears that the law of value itself is regulated by the above facts which are peculiar to socialist production" (Stalin, I. V., Ekonomicheskiye problemy sotsializma v SSSR, page 55).

But the law of value, not serving as a price regulator, exerts an influence on the formation of prices on agricultural raw materials and is one of the factors in that formation. The terms under which the collective farms deliver their agricultural raw materials to the state provide that the collective farms yield their ownership of those products to the state while the state acquires such ownership of them. The prices received by the collective farmers and paid by the state industry for such raw materials determine the collective farms' financial income from that portion of their products on the one hand and the amount of the expenditures and accumulation by state industry on the other.

Inasmuch as the turnover of the means of production within the country is not connected with actual purchase-and-sale relations, the prices in the field of production of the means of production do not perform the functions of distributing the national product and the national income among the production sectors of the socialist economy or between accumulation and consumption.

Here the price changes are manifested only in the relations within the state economy (shrinking profits of some branches and reduced expenditures of others; lower deductions from profits in favor of the state budget on the one hand and reduced expenditures of the state budget on the other) and do not bring about any redistribution of the national income between accumulated surplus and consumption or between the state and collective farm sectors of the national economy. With each successive reduction in the prices of the means of production in industry the accounts between the state budget and the state economy are usually balanced without loss or gain for the state budget. The only exception is losses sustained from the reduction of prices on horse-drawn agricultural machinery and animal husbandry equipment sold to the collective farms at wholesale prices plus a commercial charge.

Since the major part of surplus accumulations in the socialist society is concentrated in the hands of the Soviet state and distributed by it according to the needs of the whole society, the scale and tempos of reproduction at enterprises and branches of industry are not determined by the price level of the means of production. The function of prices on means of production, not taking foreign trade into account, is reduced to the role of an economic instrument for calculations and computations, for determining the profits and losses of enterprises, for checking and controlling them.

Thus the law of value does not play the part of a regulator in the formation of prices on means of production. But this does not mean that the law of value has nothing to do with the formation of those prices or that it is possible in the processes of

price formation to leave the operation of the law of value out of account altogether. The reason the prices of means of production can be used for checking and controlling enterprises, for calculations, and account settlements is that those prices are not fixed arbitrarily but are based on considerations of the amount of past and current labor expended and they are reckoned in financial or value terms. The prices on the means of production are based on the expenditures of the state industry involved in the production of goods. In this connection account is taken not of the expenditures of individual enterprises but of the necessary expenditures of the entire branch of industry. It is also obvious that although the conformity of the effective demand with the supply of goods has no relation to the formation of prices on the means of production, the determination of such prices cannot fail to take account of the necessity of securing the proper correlation of values between various types of industrial goods. As will be seen later the necessity of planning correlation values among various types of industrial goods involves the utilization of prices as a method of economic accounting and as an additional stimulant for expanding production and reducing costs.

Thus the new economic conditions created in the USSR as a result of the socialization of the means of production both in the cities and in the villages restricted the sphere of operation of the law of value and changed the meaning of price and its role in the economy as well as the nature of the price movement. The restriction of the operation of the law of value in the USSR's socialist society first of all served to eliminate the all-embracing universal nature of prices peculiar to capitalism. The liquidation of the exploitation of hired labor by capital was followed by the

elimination of the category of value and price of labor. Wages in the USSR do not represent any relations in the purchase-and-sale of labor power. They represent in terms of money the share of the worker employed in a particular government enterprise or institution received by him from the total public consumption fund in accordance with his quantity and quality of work.

Following its nationalization the land also ceased to be the object of purchase-and-sale and an end was put to the irrational forms of land prices. The movement of the basic funds within the state economy is not connected with commodity and financial relations. The transfer of basic funds by one economic organization to another does not involve any financial accounting between them. Such concepts as the price of a plant, a mine, or a railroad do not exist in a socialist economy. Existing in the USSR is a very broad sphere of social and cultural services offered by the state free of charge to the members of the socialist society. Nor does the concept of prices apply in this sphere of services.

In the economic circulation of the major part of public goods the law of value no longer functions as a price regulator. Thus the means of production manufactured by state enterprises are beyond the operational limits of the law of value since they cannot in any way be classified as a commodity. The prices on the means of production lost their functions peculiar to conditions of commodity circulation and acquired new functions conforming to the requirements of the development of the all-people's (state) form of socialist production. These requirements of the development of an all-people's (state) form of socialist production consist of the necessity of public control over the operations and

expenditures of the different enterprises. The price, then, serves as a necessary and expedient instrument with which the socialist society can exercise that control under conditions when a more direct measurement of the expenditure of labor power is impossible.

The utilization of prices for checking and controlling the work of an enterprise is manifested in the fact that the scope of productive activities of certain enterprises is measured indirectly, in terms of the financial income realized from the goods produced at fixed state prices. The enterprises' costs of the production of goods are also computed on the basis of the prevailing state prices on the material elements of production. Since the assessment of the results of an enterprise's economic operations, determining the material stimulation of an enterprise and its workers, is made on the basis of a comparison between the financial income and outgo of an enterprise, it becomes possible to utilize prices as an additional stimulant for increased production and reduced costs.

As a result of the socialization of the means of production both in the cities and in the villages, the law of value has even lost its significance as a price regulator of agricultural raw material, even though it is still one of the factors in the formation of those prices. Since the flow of agricultural raw materials between the collective farms and the state industry is connected with the distribution of the national product and the national income among the productive sectors of the socialist society, the procurement prices on agricultural raw materials largely serve to determine the incomes of the collective farms and farmers

on the one hand and the surplus accumulation of the state industry on the other. In view of this the procurement prices act as an important stimulant for the expansion of production of agricultural raw materials in conformity with the state-planned harvest yields and efficiency of agricultural production.

In the sphere of commodity circulation the law of value retains its function as price regulator. But since this regulative influence of the law of value is substantially restricted by the socialization of the means of production and the planned management of the economy, there is no "free" interplay of prices under socialism even in the case of consumer goods circulating on the organized market.

The planned fixing of prices on consumer goods serves to change the system of retail prices along with the wage system into an instrument for planning the distribution of the country's national income into surplus accumulation and consumption, as well as the distribution of the total consumption among the working class, peasantry, and intelligentsia.

The correlation between the prices of services and goods acquired by the working class and intelligentsia and the financial compensation for their work determines the level of real wages. The correlation of the prices on goods produced by the state industry on the one hand and the procurement and purchasing prices on agricultural products on the other is an important index of the collective farmers' real income as is their income in kind.

The retail price level is very closely tied to the purchasing power of the ruble and the capacity of the home market. The

lower the price level and the higher the purchasing power of the ruble, the greater the effective demand for goods and the wider the capacity of the home market. The fact that the USSR's enterprises cannot do without taking into account the operation of the law of value and without utilizing the forms of value necessitates large scale national economic planning with the simultaneous use of material criteria of value indexes based on the prevailing price system. Value criteria are used to determine the scope, development tempo, as well as the structure of public production, the volume and rate of growth of the gross and commodity output of the various branches of the national economy, the interrelation between the production of the means of production and the production of consumer goods, and the development ratio of the allied and interconnected branches of production. All the synthetic problems of the national economic plan, the planning of the total national product, the planning of the national income and its distribution between surplus accumulation and consumption, the planning of capital work, the planning of production costs and circulation, the planning of commodity turnover, and the financial program of the plan, are bound up with the utilization of value indexes.

One of the most important tasks of the USSR's economic activity in the present stage of development of the Soviet state is the mastery of the law of value, the ability to take into account its requirements in the field of economic activity, and the ability to implement a correct price policy. That is why the study of the existing price system, its all-round improvement, and skillful application are the urgent tasks of the USSR's economic and planning cadres.

Soviet Price Policy

An understanding of the operation of the law of value in different fields of the Soviet economy facilitates its practical application in the USSR's economic construction to further the interests of the socialist system.

I. V. Stalin's remark to the effect that the USSR's economic managers and planners with few exceptions are not sufficiently familiar with the operation of the law of value and are not studying it well or making use of it in their work applies particularly to their inadequate understanding of the benefits for the USSR's economic construction derivable from the skillful handling of the price lever. And prices are among the most important instruments of the economic policy of the Soviet state.

The economic policy in a socialist state is based on the conscious application and utilization of the objective laws of economic development in the interests of the whole society. The entire economic and organizational activity of the Soviet state, its economic plans, and their practical realization rest on the solid foundation of understanding the law of economic development, the ability to use them with full confidence and to utilize their operation in the interests of society.

The party and the Soviet Government, backed by the understanding of the laws of socialism and utilizing them in the interests of the whole society, organize the national effort on a state-wide scale to conform with the requirements of the development of the socialist society toward communism. Therein lies the sources of the powerful vitality and invincibility of the economic policy of the Communist Party and the Soviet state.

The law of the systematic development of the national economy, which means also the planning of the national economy, a more or less true reflection of that law, can produce the desired effect only when the solution of the problem at hand calls for the planned development of the national economy. That problem is contained in the basic economic law of socialism. Reflecting the law of systematic proportional development of the national economy, planning must conform in every way to the requirements of the basic economic law of socialism.

To be successful the Soviet price policy must conform in every way to the requirements of the basic economic law of socialism. That means that it must serve the interests of satisfying the constantly growing demands of the socialist society as the ultimate purpose of socialist construction and further the interests of the steady growth and perfection of socialist production which is a means to that end.

The basic line and level of the Soviet price policy is systematic price reduction. This policy of reducing prices, steadily implemented by the Soviet state, is the exact opposite of the practice of price hiking and increasing living costs which is characteristic of modern capitalism.

As is known, capitalism in the last, imperialist stage of its development means monopoly capitalism, the domination of capitalist monopolies.

One of the specific instruments used by the capitalist monopolies to gain maximum profits are inflated prices on monopolized commodities.

Monopoly oppression and the rising living costs related to it bring in their wake an unprecedented deterioration of the living standard of the broad masses of the people, the ruination and impoverishment of the population of each country. Unable to cut nominal wages in the face of decisive resistance on the part of organized labor, the capitalist monopolies implement through the medium of their respective bourgeois governments a policy of inflation as a tested method of reducing the real wages of the working class. The difference between the inflated costs of living and the nominal wage level, which is inadequate to compensate for the cost of labor power reproduction is one of the sources of the enrichment of the monopolies. Following are the average wages in percentage terms of the living minimum after World War II. In the US (1950) 72%, in Western Germany (1949) 63%, in Italy (1951) 50%, and in Japan (1951) 30%.

The oppression of the monopolies in a modern bourgeois state is particularly manifested in the practice of forcing the small commodity producers to sell their agricultural raw materials, food-stuffs, and other commodities to the monopolies at exceptionally low prices. The difference between the low prices at which the farmers and peasants are forced to sell the products of their labor and the ultimate prices charged by the monopolies for those products or for processing them into consumer goods is pocketed by the monopolies and becomes a source of their growing profits.

Even according to the deliberately falsified figures of the US Department of Agriculture, the farmers' share of the 58 food products consumed annually by the average American worker's family was reduced from 53% to 40% in the 25 years before World War I

(1913-1938). After the end of World War II the process of redistributing the farmers' income in favor of the monopolies through the medium of prices has been still further accelerated. Thus according to official statistics the index of retail potato prices in the US in 1949 was 241.1 as compared to the retail price level of 1935-1939 (taken as 100). The index of farm prices during the same period went up to only 185.1. Between 1947 and 1950 the price of wheat in the US according to official figures was reduced by 15% while the retail price of white bread was increased by 14% during the same period.

The decreasing share of the small commodity producer in the ultimate price of his goods is accompanied by a widening gap ("scissors") between the price level of the goods sold by the small producers and the goods purchased by them.

Another source of enriching the monopolies is the forcible redistribution of part of the wealth created by the workers of the colonies and dependent countries through the imposition of low prices on their raw materials and high prices on the monopolized commodities. Typical of the period of monopoly capitalism is the constantly widening gap between the prices on industrial and colonial goods on the markets of the parent states as well as between the prices of imported and exported goods on the markets of the colonies. Characteristic of the period following World War II is the systematic plundering, particularly by American monopolies, of the peoples of other capitalist countries trapped by them into bondage by way of imposing on those peoples excessively highly priced American goods and reduced prices on the raw materials and semimanufactures exported from those countries.

The movement of prices on monopolized commodities in the period of imperialism comes under the influence of the actual power of the monopolies on the particular market. In the predaceous imperialist strive to establish the highest possible prices on the markets dominated by them and on markets where domination is yet to be achieved, the monopolies do not hesitate in certain cases to resort to such aggressive methods as dumping, that is, temporary sales at give-away prices below the actual production costs. High monopoly prices on the home market, on the markets of the dependent countries already dominated, as well as dumping with a view to conquering new markets are characteristic features of monopoly capitalism.

An active part in the realization of the monopolistic policy of inflating prices is played by the bourgeois government, the weapon of the biggest monopolies.

The provocation of wars, stimulation of armaments, and militarization of the economy serve as a weapon which is used by the ruling monopolies in the US and other capitalist countries and the governments subordinated to them to artificially inflate the demand on the home market thereby contributing to the growth of commodity prices. And the financing of war orders at excessively high prices is carried out with taxes paid by the working masses. The monstrous method of utilizing the tax system as an instrument of redistributing the national income of the capitalist countries in favor of the financial oligarchy on an unprecedented scale has been one of the characteristic features of monopoly capitalism during World War II and particularly in the postwar period.

The growth of the monopolies and their domination of the economy of the bourgeois countries intensifies the contradictions of capitalist production, especially in the present stage of the general crisis of capitalism. The fundamental contradiction between the social character of production and the private, capitalist method of benefiting by its results, inherent in capitalism, is particularly manifested in the conflict between the efforts of the capitalists to increase the quantity of commodities they can dispose of at the highest possible prices and the limitations of the effective demand of the working people which continues to shrink. The domination of the monopolies is conducive to an unprecedented intensification of that contradiction. The inflation of prices by capitalist monopolies which sharpens the conflict between production and consumption is the most powerful factor in bringing about the crisis of overproduction and aggravating its destructive consequences.

Incapable of averting a general slump in prices in times of crises, the capitalist monopolies are bending all their efforts to weaken the effect of the crisis on monopoly commodities. Stubbornly resisting any reduction in the prices of these goods, they hamper the reabsorption of the accumulated commodities thereby making the solution of the crisis still more difficult and the lot of the working people still harder.

"Present-day capitalism, unlike the old capitalism, is a monopolistic capitalism, and this predetermines the inevitability — of the struggle of capitalist associations for the preservation of high monopoly prices of commodities regardless of overproduction. It is clear that such a situation, making the crisis still more

agonizing and destructive for the people who are the major consumers of goods, cannot but prolong the crisis and hinder its solution" (Stalin, I. V., Soch., Vol 12, page 246).

While price inflation and rising living costs are characteristic features of modern monopoly capitalism, the systematic reduction of prices is a characteristic feature of the development of the socialist economy.

The Communist Party has invariably oriented the industry and trade toward the practice of price reduction in every stage of development of the Soviet state.

In the first phase of the Soviet state, the price reduction policy reflected the basic task of the state, from the point of view of internal conditions of development, which consisted in suppressing the resistance of the overthrown exploiter classes, restoring and developing industry and agriculture, and preparing the conditions for the liquidation of the capitalist elements.

The movement of prices during that phase of the development of the Soviet state was directed toward the restriction and elimination of the capitalist elements, the protection and systematic increase of the share of the working class and working peasantry in the national income, the consolidation of the worker-peasant alliance, and the accumulation of surpluses to secure a rapid rate of development of socialist industry.

At a time when agriculture consisted of a vast mass of small and tiny peasant households an important feature of the government's efforts toward the development of agriculture were indirect methods of regulating it. The connections between the state industry and

the individual peasant farmsteads were maintained through the medium of the market. Private capital played an important intermediary part on that market in the first period of the new economic policy.

The struggle for government leadership over peasant agriculture, for the restriction and elimination of the capitalist elements, and for the predominance of socialist elements over the national economy called for the seizure of the market. This implied first of all the possession of the price mechanism. This is why the Thirteenth Congress of the RKP(b) [Rossiyskaya Kommunisticheskaya Partiya (bol'shevikov) -- Russian Communist Party (bol'sheviks)] pointed out that "the extent of the government's influence on market price regulation is a direct indication of the extent of the Soviet Government's leading role on the market."

Concentrating the socialist industry commodities in its hands, backed by the foreign trade monopoly and using its position of a monopolistic purveyor and exporter of agricultural products, the Soviet state countered the spontaneous activities of the market brought about by private capital with a planned Soviet price policy implemented in the interests of socialism.

All the economic and consequently also the political problems of that time were in one way or another tied to the problem of prices. The question of "who will win" was closely connected with the question of who was in control of the price mechanism and in whose interests it was operating.

The resolution of the February Plenum of the TsK VKP(b) [Tsentral'nyy Komitet, Vsesoyuznaya Kommunisticheskaya Partiya (bol'shevikov) -- Central Committee of the All-Union Communist

Party (bolsheviks)]], 1927 pointed out that "all the basic economic and consequently also political problems of the Soviet state are interwoven in the price problem. The problem of establishing proper mutual relations between the peasantry and the working class, the problem of insuring the interconnection and interdependence of agriculture and industry, the problems of distributing the national income and the related tasks of industrializing the USSR and the economic and political strengthening of the working class, the problems of securing real wages and strengthening the 10-ruble bill, and, finally, the systematic consolidation of the socialist elements of our economy and the further restriction of the private capitalist elements of the national economy were all based on the problem of prices" (VKP(b) v rezolyutsiyakh i resheniyakh s"ezdov, Konferentsiy i plenumov TsK [Resolutions and Decisions of the Congresses, Conferences and Plenums of the TsK VKP(b)]], Part II, 1940, page 159).

Private capital and its defenders from the camp of contemptible Trotskyite restorers of capitalism demanded a free interplay of prices on the market and attempted to impose on the USSR a capitalist policy of high prices on industrial goods and low, falling prices on agricultural products with a view to channeling the surpluses into the private capitalist sector, reducing the workers' wages and the peasants' income and undermining the industrialization of the USSR and the worker-peasant alliance. Opposing that antisocial policy which was inspired by monopoly capital from the outside, the Communist Party and the Soviet Government staunchly defended and consistently implemented the reduction of prices on industrial goods and the stabilization of prices on agricultural products.

"One of the basic conditions for strengthening our positions against private capital," the decisions of the Thirteenth Congress of the RKP(b) pointed out, "was the price policy. Concentrating in its hands the bulk of the products used by the villages, the Soviet Government must bring about a situation whereby the state organizations and cooperatives could sell cheaper than the private merchant" (VKP(b) v rezolyutsiyakh i resheniyakh s"ezdov, Konferentsiy i plenumov TsK, Part 1, 1940, page 551).

Guided systematically by that policy, the Soviet state solved the concrete problems of prices in the period of transition from capitalism to socialism.

The point at issue was to frustrate the attempts of private capital to use the price mechanism for purposes of self-enrichment at the expense of the working class and the working peasantry, at the expense of the socialist state. The purpose was to eliminate the capitalist elements from the sphere of production and circulation of money.

It is common knowledge that by taking advantage of the state industry's inability to meet the growing demand for goods in 1923 the private merchants and private merchant elements who at the time carried much weight in the trading apparatus succeeded in imposing excessively high prices on industrial commodities.

This practice of inflating industrial prices which resulted in trade interruption and a crisis in the marketing of industrial goods, in the fluctuation and decrease of the ruble value which hindered the improvement of the workers' and peasants' conditions and the development of industry, was carried on at the directives

of hostile Trotskyite elements who were active in a number of branches of industry and trade at that time. The private merchant, Trotskyite policy of raising the prices on industrial commodities was countered by the party's policy of systematically reducing wholesale and retail prices which was one of the decisive conditions for a rapid expansion of socialist industry and a means of overcoming the crisis in the marketing of goods and bringing about a victory of the socialist elements over the capitalist elements in industry and trade.

The problem of liquidating the so-called wholesale-retail disparity was just as successfully solved in the first period of the new economic policy. The emergence and urgency of that problem were connected with the still existing low level of industry during that period and the Soviet Government's insufficient control of the trade levers in the first stage of the new economic policy.

The bulk of the mass consumption goods (yard goods, kerosene, salt, matches, etc) was at that time in the hands of the state industry and its marketing apparatus. But in the retail trade, private capital played an important part. These conditions produced a very wide gap between wholesale and retail prices unjustified by the distribution costs. Taking advantage of the commodity shortage, private merchants increased their markup on wholesale prices. Such increases by the private merchants were as a rule more than double the markups in state trade. The private merchant elements who infiltrated the consumer cooperatives attempted to direct the cooperative trade along the same path. The cooperative retail markups were on the average considerably higher than those in state trade. As a result the price reduction

consistently implemented by the state industry did not reach the consumer but contributed to the accumulation of additional surpluses in the trade network particularly among private merchants.

It was necessary to eliminate the gap between wholesale and retail prices through the medium of retail price reduction and to eliminate the private merchant from trade through the fixing of lower retail prices.

Inasmuch as private capital still played a considerable part in retail trade, a direct standardization of prices for all types of trade in that period could be realized only in the case of a limited group of commodities which actually came under government monopoly.

The TsK RKP(b) pointed out in its decision "on domestic and cooperative trade" adopted in 1924 that "the standardization of retail prices must extend to private trade in cases where the state organs can insure a plentiful supply for the market of certain commodities under actual state monopoly, such as kerosene, salt, matches, etc. And the establishment of price ceilings for private trade should be realized in districts where the local cooperative apparatus and state retail outlets are fully capable of organizing such retail trade."

Under such conditions, the emergence of organized state and cooperative trade on the market became of decisive importance and exerted an economic influence on private capital in trade. The Soviet state set maximum limits to the markups in state and cooperative retail trade.

In regard to the commodities whose production was controlled by the state industry, the government was able to dictate to private capital ceiling markups on retail goods under agreements concluded between them. The problem of liquidating the excessive gap between wholesale and retail prices, not justified by distribution expenditures, was thereby successfully solved. The establishment of wholesale prices on the commodities of state enterprises and the control over trade markups created the necessary conditions for planning the extent and scope of retail price reductions. As the result of the consistent implementation of the policy of retail price reductions the problem of selling goods cheaper than the private merchant, posed by the Thirteenth Party Conference before the state and cooperative trade, was successfully solved. In 1923-1924 the price level in the state and cooperative trade was only 3% lower than in private trade, but in 1927-1928 the state organizations and cooperatives sold their goods 33% cheaper than the private merchants.

If during the restoration of the national economy and its reconstruction on the basis of industrialization the question of reducing prices on industrial goods was of particular importance, then during the development of the collectivization of agriculture the problem of price reduction in industry was accompanied by a desperate class struggle around the prices on agricultural products. Particularly pronounced at that time was the lagging of the USSR's agriculture behind the rapidly expanding socialist industry, which stressed the impossibility of "accelerating the tempo of the USSR's socialist industry under conditions of a small peasant type of agriculture incapable of expanding reproduction while comprising the

major force of the USSR's national economy" (Stalin, I. V., Soch., Vol 12, page 145).

The kulak peasantry still existing in the country at that time tried to take advantage of the grain and raw material difficulties to bolster their own positions and frustrate the socialist drive in the villages conducted by the party. The kulak peasantry refused to turn over their grain and agricultural materials to the state demanding the abolition of the stable government purchasing prices on grain and agricultural raw materials and the adoption of a policy of "free" formation of market prices on the basis of supply and demand.

Acting as zealous defenders of kulak interests were the Bukharinite capitulators and restorers of capitalism. Under cover of false slogans of "normalizing" the market, they demanded the establishment of full freedom of trade, a free interplay of prices on the market, the abolition of the government's regulative role on the market, and the liquidation of the Soviet price policy.

The party exposed the real meaning of this antisocial policy of the agents of the kulaks and foreign capital.

In his speech at the April Plenum of the TsK VKP(b) in 1929, I. V. Stalin showed the exceptional dangers to the future of the dictatorship of the working class and its foundation, the worker-peasant alliance, inherent in the policy of increasing prices on bread and agricultural raw materials imposed by the kulak peasantry. Bearing in mind the difficulties in supplying the cities with food-stuffs, I. V. Stalin pointed out that "once we take the path of increasing prices on bread, we shall continue coasting downhill without any guarantee of ever getting a sufficient amount of grain."

But that is not all. The question of procurement prices on bread cannot be considered as something isolated from the entire price system in the USSR. Had the Communist Party and the Soviet Government adopted a course of increasing the procurement prices of bread, they would also have had to increase the prices on agricultural raw material without which it would have been impossible to maintain a proper correlation between the production of food and technical cultures. Furthermore by raising procurement prices on grain it would have been impossible to maintain the retail price level on bread in the cities. That in turn would have led to rising wages and consequently increased costs of goods and higher prices of industrial commodities.

It is clear that the party could not take that disastrous course.

The party broke the resistance of the kulak peasantry and maintained stable prices on grain and other agricultural products. The party introduced a new form of commodity circulation between the cities and villages and between the state and the peasantry. It consisted in the sale of grain and other agricultural products to the government by the peasantry under special agreements providing for mutual (contractual) obligations. Such contracts, based as they were on the strict adherence to the price level and on the enormous economic aid rendered to the peasantry by the state, played an important part in consolidating the union between the city and the working peasantry in the struggle against the kulaks and their agents.

With a view to securing a stable supply for the cities and villages the Soviet Government also introduced the temporary

rationing of foodstuffs and industrial goods in the cities at fixed retail ration prices early in 1929. Consequently when the ration card system was abolished a system of unified retail prices under conditions of open trade in all goods was introduced.

In the second phase of the development of the Soviet state when the socialization of the basic means of production and the liquidation of the exploiter classes were accompanied by the abolition of the role of prices as an instrument of restricting the exploiter classes and eliminating them from the economy, an instrument of redistributing their incomes in favor of the working class, the working peasantry and the Soviet state, the utilization of prices for the maximum satisfaction of the material and cultural needs of the Soviet people, and the steady growth and perfection of socialist production acquired a decisive importance.

The party's decisions on prices invariably point out that the reduction in the cost of industrial goods and in the prices of industrial commodities represent not a temporary measure introduced by the exigencies of any particular period but a basic line of industrial development.

In his speech to the Fifth All-Union Conference of the VLKSM [Vsesoyuznyy Leninskiy Kommunisticheskiy Soyuz Molodekhi -- All-Union Lenin's Young Communist League], I. V. Stalin pointed out that there were at least 4 basic reasons determining the objective necessity and efficacy of such a line.

The first reason is that we need the type of industry that could make gigantic forward strides and promote a corresponding development of agriculture. Such an industry cannot be based on

high prices since it would inevitably degenerate into a hot house, devitalized plant.

The second reason is that socialist industry is based on the internal market. The USSR's industry develops and strengthens in keeping with the development and expansion of its internal market. The capacity of the USSR's internal market is determined among other things by the systematic reduction in prices on industrial goods.

The third reason consists in the fact that the reduction of prices of industrial goods makes possible an increase in the real wages of the working class. In addition to reducing the workers' expenditures for such goods, the reduction of prices on industrial goods is of great importance for insuring the stability of prices on agricultural products acquired by the state from the peasantry and consumed chiefly by the city population.

Under the conditions of the collective farm market a reduction in prices on industrial goods produces a corresponding reduction in market prices on agricultural products and contributes to a further increase in the wages of the working class.

The fourth reason is that the reduction of prices on industrial goods, with purchasing prices on agricultural products remaining stable, is an important condition for the consistent increase of the real income of the peasantry, for raising its living standard, and the further strengthening of the worker-peasant alliance.

A reduction of prices of course calls for the creation of the necessary material prerequisites and cannot come into being of

its own accord. It presupposes a systematic increase in labor productivity and a reduction in costs as a necessary condition. Without it a reduction in prices could undermine the sources of surplus accumulation by socialist industry.

"Since accumulation within the industry is one of the most important sources of the rate of the country's industrialization, as provided for by the party, efforts must be made to achieve a reduction in costs so as to prevent the reduction in selling prices from decreasing the industrial accumulation. The reduction in selling prices must stimulate the industrial enterprises to greater achievements in the field of cost reduction" (VKP(b) v rezolyutsiyakh i reshoniyakh s"ezdov, Konferentsiy, i plenumov TsK, Part II, 1940, page 161).

Bearing in mind the objective regularities of the development of socialist economy in the realization of their economic policy, the Communist Party and the Soviet Government direct the development of Soviet industry along the course of systematic price reduction. Following the abolition of the ration card system in 1935 the Soviet Government introduced 2 price reductions on industrial goods (in 1935 and 1937).

During the Great Fatherland War the Soviet Government secured the complete stability of retail prices on all rationed goods and wholesale prices in industry. At the same time it reduced the prices on wartime goods by many tens of billions of rubles. The Soviet state was the only one of all the fighting countries where wholesale prices not only were not increased but were systematically reduced on the basis of reducing the cost of goods.

After the end of the Great Fatherland War, as soon as the postwar economic reconstruction was completed, the Soviet Government began to introduce large scale reductions in retail and wholesale prices on goods produced by the state industry. Between 1947 and 1953 the party and the government introduced consecutively 6 reductions in state retail prices which were accompanied by corresponding price reductions on the collective markets. These reductions meant a gain for the population of hundreds of billions of rubles and a sharp improvement in their material welfare. Reduced also in 1950 were the wholesale prices on heavy industry commodities and freight rates. A new and considerable reduction in wholesale prices and freight rates has been in force since 1 January 1952.

The ability of the Soviet state to introduce considerable price reductions simultaneously with the realization of a majestic program of restoration and further development of the socialist economy provide a striking confirmation of the great vitality of the socialist system and its great superiority to the capitalist system.

The Soviet state is able to systematically reduce prices because of the following.

Socialist ownership and the socialist system of nationalist economy on which it is based make possible a growth of labor productivity and reduction of production costs unthinkable under capitalism.

The development of production in a socialist society is subordinated to the maximum satisfaction of the constantly growing material and cultural demands of the entire society.

The Soviet Union is carrying out a consistently peaceful policy and is not squandering enormous funds of money on the armament race and preparation for a new war as is done in the bourgeois countries.

The Communist Party and the Soviet Government are constantly solicitous about satisfying the growing material and cultural demands of the working people. The concern for the welfare of the Soviet men and the prosperity of all the Soviet people is the law of our party. The continuous systematic reduction in prices on consumer goods and increase in the real wages of workers and employees and in peasants' incomes are an integral part of the economic policy of the Communist Party and the Soviet Government.

The Soviet policy of consistent and systematic price reductions reflects the essential requirements of the basic economic law of socialism and is motivated by them.

The implementation of this policy meets the purpose of socialist production, a purpose inherent in the basic economic law of socialism and consisting in the maximum satisfaction of the material and cultural demands of the whole society, since the reduction of prices on consumer goods is the basic method of raising of the material and cultural level of the members of the socialist society.

The implementation of this policy is in keeping with the means for achieving the purpose inherent in the basic economic law of socialism, and that is the uninterrupted growth and perfection of socialist production on the basis of advanced technology, since (a) a reduction of prices contributes to the expansion of the domestic market for state industry goods and thereby

also to the steady development and strengthening of the USSR's industry, and (b) a reduction of prices can be realized only through a systematic reduction of production costs which is based on the introduction of the latest machinery, the improvement of production, labor organization, and the methods and forms of economic management.

What is the meaning of the implementation of a price reduction policy by making it conform in every way with the requirements of the basic economic law of socialism?

It means first that the operations of the Soviet enterprises are to be managed in such a way as to constantly create the material prerequisites for price reductions in every sector of the socialist economy.

The material basis for a price reduction is the saving of current and past labor spent on the production of goods which in terms of money means a reduction in the production expenditures of the socialist enterprises and an increase in their net income (profit) which is a source of both accumulation and necessary reserve for price reduction. The socialist method of economizing current and past labor in the national economy is the regime of economy. "The economic regime as a method of socialist economic management played a great part in the industrialization of the USSR. Now that a new powerful upswing of the national economy is underway in the USSR and is accompanied by a systematic reduction in the prices of consumer goods, the economic regime is assuming still greater importance" (Malenkov, G., Otchenyy doklad XIX s"ezdu partii o rabote Tsentral'nogo Komiteta VKP(b) /Principal

Report to the Nineteenth Party Congress on the Work of the TsK
VKP(b) [7], 1952, Gospolitizdat, page 62).

It follows from this that the realization of a policy of
price reduction is indissolubly tied to an economic regime.

One cannot say that this connection is clearly understood
by all of the USSR's economic and planning cadres. As was pointed
out in the principal report of the TsK to the Nineteenth Party
Congress, many enterprises failed to cope with their plan assign-
ments to reduce the cost of production by taking cover behind the
general indexes of industrial performance.

Such violations of the state planned discipline run counter
to the Soviet price policy, hamper the consistent reduction of
prices and restrict its scope. It is of course impossible to be-
come reconciled to such an antistate practice. The realization
of the Soviet price reduction policy calls for the strict obser-
vance of the state plan discipline by all enterprises and uncon-
ditional fulfillment of the commodity production assignments, an
increase in the productivity of labor, and a reduction in costs.

The realization of the Soviet price reduction policy implies
first the necessity of using the law of systematic proportional
development of the national economy with a view to overcoming all
sorts of departmental, local, and speculative perversions of price
formation that are conducive to spontaneous manifestations of the
law of value.

Let us cite another example.

It is known that the producers cooperatives can purchase from the collective farms and farmers, after the latter have fulfilled their obligations to the state, certain types of agricultural products and raw materials for industrial processing. With the cooperative organizations abiding by the regulations governing the state fixed procurement and purchasing ceiling prices, this measure could be of substantial help to the Soviet price policy since it contributes to the increase in the quantities of industrial goods flowing into the state and cooperative trade.

However there were cases when the purchase of agricultural products and raw materials made by certain branches of the industrial cooperatives was accompanied by a violation of the state purchasing ceiling prices. Such practice of deliberately raising the state ceiling prices is an antistate practice, since it (a) is conducive not to a planned regulation of prices in kolkhoz trade but on the contrary to bolstering prices through the purchasing of agricultural products at high prices and (b) holds back the reduction of prices on industrial goods by artificially raising production costs.

Such perversions of the Soviet price policy are justifiably and severely penalized by the Soviet Government.

Let us cite one more example in regard to price formation.

The existing system of price formation makes possible the establishment of prices on certain goods directly by the ministries (departments), oblast (krai) executive committees of soviets of workers' deputies and by industrial cooperative unions. Mindful of the necessity of supporting local initiative in contributing

to the increase of production of industrial goods, this system however is of positive importance so long as the activities of those various organizations participating in the price formation are determined by the same policy, the Soviet policy of systematic price reductions. That is why the still frequently occurring cases when certain departments and local organs, particularly cooperative organizations, raise their prices with a view to obtaining excessively high prices are inadmissible. The harmfulness of such practice consists in the fact that it (a) counteracts the realization of systematic price reductions, (b) weakens the planned price regulation, and (c) runs counter to the interests of the steady perfection of socialist production inasmuch as excessively high profits cannot but weaken the stimuli for improving the operation of enterprises.

The realization of the Soviet price policy calls for a final liquidation of such practices.

The operation of the law of value is manifested in the formation of prices as an objective necessity of determining the value relations among various groups of products in the socialist national economy, between the state industry products and the agricultural raw materials produced by the collective farms, among the various types of state industry goods, and among the various types of agricultural raw materials and products produced by the collective farms.

What determines this policy in the sphere of value correlations? Here too the price policy can be correct and successful only if it conforms in every way to the requirements of the basic economic law of socialism.

This means first that the correlation between the prices on goods produced by various branches of the national economy must insure the realization of systematic reduction of state retail prices which is one of the decisive conditions for the maximum satisfaction of the constantly growing demands of the whole society. Hence the necessity of systematic reduction in costs and through it in the wholesale prices of the means of production.

This means second that the correlation between prices on various types of goods produced by the state industry, cooperative enterprises, and collective farms should be determined in such a way as to contribute to the steady growth and perfection of socialist production as provided for in the basic economic law of socialism.

In planning value correlation we must proceed from the fact that the law of value also exerts its influence on production and that it would be useful to take such influence into account in the economic policy inasmuch as it is in keeping with the steady growth and perfection of socialist production.

Any price system, when properly applied to the distribution of material welfare among the members of a socialist society can serve as a powerful additional stimulant for increased production and conversely it can act as a brake on the realization of such plans if applied incorrectly. This may be demonstrated in the example of the procurement prices on animal products as well as potatoes and vegetables which, as the September Plenum of the TsK KPSS [Kommunisticheskaya Partiya Sovetskogo Soyuza -- Communist Party of the Soviet Union] pointed out in 1953, were obviously not in the interests of the material stimulation of industry and by

the same token served as a brake on the development of such important branches of agriculture as stock raising and potato and vegetable growing. That is why it is so important that the USSR's economic managers and planners become well acquainted with the operation of the law of value and be guided by it in the determination of prices.

The ability to take the operations of the law of value into account in one's planning means the following.

First, when determining the price of a certain type of product one must not forget about checking the relation between the given price and the prices of other products exchangeable for this particular product, replacing it in consumption, or connected with it in general process of production.

Second, when checking the just value relation between different types of products, it is necessary (a) to begin with the stimulation of the major branches of the national economy from the viewpoint of continuous production growth and (b) to take account of the relations between the various types of goods in the matter of production costs (value).

The crude errors that may result from the inability to take into account the operations of the law of value in the practice of price calculation were pointed out by I. V. Stalin in his Ekonomicheskiye problemy sotsializma v SSSR.

"Some time ago it was decided to establish the proper relation between the prices of cotton and grain, to define the exact price of the grain sold to the cotton growers and raise the price of cotton delivered to the state, in the interests of cotton growing.

In this connection the USSR's economic managers and planners submitted a proposal which could not but amaze the members of the TsK since under that proposal the price of a ton of grain was almost equal to that of a ton of cotton or a ton of baked bread. When the members of the TsK pointed out that the price of a ton of baked bread should be higher than the price of a ton of grain in view of additional milling and baking expenses and that cotton generally costs much more than grain, as witnessed by the world prices on cotton and grain, the authors of the proposal could not suggest anything sensible. In view of this the TsK had to take charge of that business, lower the grain prices, and raise the cotton prices. What would happen if the proposal of those comrades had been made law? We would have ruined the cotton growers and been left without cotton" (Stalin, I. V., Ekonomicheskiye problemy sotsializma v SSSR, page 21).

The decision of the party's TsK on that problem and the decision of the September Plenum of the TsK KPSS of 1953 were of exceptional importance for the purpose of price formation in general and for the establishment of prices on agricultural products and raw materials in particular.

From the point of view of practical price formation in agricultural products and raw materials, it stresses the necessity of establishing a proper correlation between the prices of the raw materials sold to the government industry by the collective farms and the prices of the products sold to the collective farms by the state industry in such a way as to make it possible for the monetary and in-kind income derived from collective farm production to insure, through growing labor productivity in agriculture not

only a reimbursement of collective farm production costs but also a production surplus and a systematic increase in the consumption of collective farmers. This in turn calls for the definition of the value relations among various types of agricultural products with a view to making the income from various branches of agricultural production conform, or approximately proportional, to the amount of labor expended in those branches.

The planning of the proper value relations is of no less importance also for the various branches of the state industry. It is true that as regards the production of the means of production whose circulation is limited to state enterprises, no particular relations between the prices of various industrial products can bring ruin or enrichment to the producers since the state is both the producer and consumer of the mentioned products. But here too price relations cannot be a matter of indifference to the realization of economic plans on the part of industrial enterprises and entire branches of industry.

As pointed out above, prices are used in the planned management of enterprises for (a) determining the planned assignments affecting in regard to the output volume and appraising the plan performance, (b) calculating production costs, and (c) comparing the results of the enterprises' operations and production costs.

A proper correlation between the prices of various types of goods is important also for stimulating the successful performance of economic plans on the part of the enterprises.

For example, the gross output index is an important indicator of the production activities of state enterprises. It is

used for evaluating the fulfillment of the production program and for planning the productivity of labor and serves as a criterion for fixing wages.

However, in view of the fact that the prices on various types of goods are related to the amount of labor spent on them, the fulfillment of the plan according to the above index cannot be affected by the proper determination of value relations between the various types of commodities. If, for example, the prices on labor consuming but important commodities are set to include a 2%-3% profit, while the prices on less labor consuming commodities of secondary importance are fixed to include a 20%-30% profit, the enterprises will be tempted to fulfill and overfulfill their plans by producing exclusively the less important commodities since the same gross production volume can be attained at a lower cost in labor and materials. In such an event the value correlations would be contradictory to the interests of the state. A correct determination of prices on the other hand provides an additional stimulus for the successful fulfillment of the plan in regard to the production of commodities that are most important for the national economy.

The TsK's principal report to the Nineteenth Party Congress pointed out that certain enterprises, striving to fulfill their gross production output plan, indulge in the antistate practice of above-plan production of secondary commodities at the expense of the most important types of goods provided for by the state plan.

One of the measures to be taken to stop such antistate practices is to put an end to the departmental misinterpretation of the price policy which finds its reflection in the premeditated

inflation of prices on secondary commodities, to be fixed by the ministries themselves, as compared to the price level of the most important types of commodities listed in the state-approved price catalogue.

An example of such misinterpretation of the Soviet price policy may be cited in the recently published case of price-fixing in the plants of the Ministry of Railroad Communications in 1950. The "Mashinostroitel" and the mechanical engineering plant attached to the subway system fixed the prices of their goods supplied to other plants to include a profit margin of over 50%.

Soviet price policy makes use of the price level to stimulate the rational utilization of material resources and transportation facilities by the enterprises. The proper correlation of prices and tariffs can and must stimulate the enterprises and construction organizations to use nondeficit raw material and materials in place of deficit materials and to make use of local commodities instead of importing them from distant places.

Just how important this is for the management of the national economy may be seen from the following examples.

In a number of cases the rational utilization of metal for the production of metal objects calls for the use of sheet steel instead of section steel. However due to the errors made during the compilation of the price catalogue introduced since 1 January 1949 for the metal processing plants it was more economical from considerations of production costs to use section steel rather than sheet steel. That brought about the unnecessary expenditure of section steel. That situation was remedied after 1 January 1950

by the establishment of a better proportional relation between the prices of sheet steel and section steel.

Here is another example. The metallurgical industry mastered the production of alternating steel sections to be used in ferroconcrete work in place of the usual mountings. The use of this new type of steel made it possible to save approximately 25% of the metal. However since the price of the alternating section steel was fixed on the basis of its production cost in the first period of production without reference to its proper relation to the price of ordinary mountings, the construction organizations found the use of alternating section steel relatively unprofitable. This served to hold back the introduction of that new type of steel which was quite effective from the point of view of state interests. This situation was remedied by the reduction in the price of alternating section steel which led to its proper correlation with the price of ordinary mountings.

All these and other facts that can be cited in connection with the process of price formation emphasize the enormous possibilities connected with the utilization of the price lever in the interests of the expansion and perfection of socialist production.

CHAPTER II. THE BASIC ELEMENTS AND STRUCTURE OF PRICE IN A SOCIALIST INDUSTRY

The previous chapter dealt with the general characteristics of prices as an economic category of the socialist society.

We shall now proceed to the discussion of concrete questions of price formation in the field of state industry. As has already

been pointed out before, the Soviet state cannot help but take into account the operation of the law of value and the amount of labor used in production in the calculation of prices on goods. In this way, according to the Marxist-Leninist political economy, the value of goods cannot be expressed independently, without reference of such goods to monetary commodity, and such relation is based on the existence of monetary forms of value. That is why actual price formation is based not on direct value but the various monetary forms in which such value is expressed in economic life.

To find out the particular value forms involved in the process of price formation, we shall take a look at the structure of prices on state industry products.

As was pointed out in the first chapter, the state industry makes use of (1) wholesale prices on means of production and (2) retail and wholesale prices on consumer goods.

In most branches of industry the structure of wholesale prices on the means of production is made up of (a) cost, (b) the profit of the enterprise, and (c) expenditures and profits of the industry's marketing organizations (embracing the types of goods which are disposed of at wholesale prices by the industry).

The retail prices of mass consumption goods contain the following elements: (a) cost, (b) the profit of the enterprise, (c) turnover tax, (d) expenditures and profits of the industry's marketing organization or the wholesale branch of trade, and (e) expenditures and profits of the retail trade.

Industry's wholesale prices on consumer goods include the same elements as retail prices with the exception of the expenditures and profits of the wholesale and retail trade.

Thus price formation in the state industry has to do with the following value forms: costs, profit of industrial and trading enterprises, turnover tax, and the expenditures involved in the circulation of production means and circulation of consumer goods. We shall discuss the economic aspect of each of these categories.

The Cost of Industrial Goods as the Basis of Price

The expenditures of labor on the production of a commodity include past labor embodied in the means of production used for the production of the commodity and current labor embodied in the newly created product (the net product comprising the country's national income). The newly created product in turn consists of 2 parts, one which is designated for the individual consumption of the workers of industry and another which is used for the expansion of material production and the satisfaction of the needs of society as a whole.

In a socialist society the entire national income belongs to the working people.

The growth of socialist production serves as a material base for the improvement of the living condition of the workers, peasants, and intelligentsia. The systematic improvement of the workers' material conditions and the steadily growing demand and purchasing power of the population, in turn, serve as a permanent source of expansion of socialist production. The steadily growing volume of the national income used for the satisfaction of the needs of the whole society serves the dual purpose of expanding the scope of public production in raising the level of national welfare.

One of the most important problems of the socialist state is to maintain control over the amount of labor expended and the extent of consumption. Such control is designed to insure a proper balance between the share of each participant in production in the total volume of consumption and the quantity and quality of labor spent by him.

Public production is carried on, as is known, at numerous different enterprises and the interests of society as a whole call for the maintenance of the strictest economy regime and the socialist government's control over production costs in every single enterprise with a view to preventing useless squandering of public labor. The state enterprises in a socialist society are the socialist property of all the people and all the necessary production expenditures, including the expenditure of labor connected with the expansion of socialist production and the satisfaction of the needs of society as a whole represent the sum total of society's expenditure.

Moreover one of the peculiar features in the management of state enterprises during the first phase of a communist society is the application of the economic self-sustaining method which calls for the large scale use of the personal material incentive in the interest of society on the one hand and a rigid ruble control over the economic activities on the other.

Self-sustaining operations are based on the following.

- (1) A commodity turnover among state enterprises in accordance with the state supply plans and economic agreements which, carried out through the medium of financial settlements, insure

mutual control over the fulfillment of agreement obligations and the application of material sanctions whenever such agreements are violated.

(2) The ability of the enterprises to cover their costs out of their own income.

(3) Each enterprise's direct financial and economic dependence on the efficient utilization of the resources at its disposal and on the successful attainment of the quantitative and qualitative plan indexes.

(4) Control over the operations of enterprises which is realized through the control over their accumulation and movement of financial funds and through the utilization of the credit and budget levers.

(5) The material incentive of the personnel of every enterprise for the improvement of the enterprise's financial operations, that is, for the increase in the financial income and the reduction of expenditures.

(6) The personal responsibility of enterprise managers for the utilization of state funds according to the assignments of the state plan.

The direct expenditures of an enterprise operating on a self-sustaining basis are the financial expenses connected with the production and disposal of commodities, that is, the expenses paid by the enterprise. Such enterprise expenses, expressed in terms of money, represent the cost of commodity production.

Production costs of state enterprises are calculated financially and consist of the use of the means of production in the manufacture of commodities as well as the expenses covering the wages of the direct participants in the production process. Thus the costs of production do not reflect the same amount of labor expenditure as the one involved in the expansion of socialist production and the services connected with catering to the needs of the whole society. Society's share in the newly created product is expressed in prices, in the shape of profits and turnover tax, which represent the difference between the cost of the product and its higher price.

The difference between cost and value does not merely consist in the fact that the former is always quantitatively smaller than the latter, inasmuch as it embodies only a part of the public working time. Worthy of mention also is the fact that in the case of the form of production cost there is a possibility of the dynamics of value coinciding with the dynamics of production costs.

The extent of value is determined by the total amount of public labor involved including the expenditure of current labor. A change in the correlation in the distribution of the newly created value between the direct producers of the given product and the whole society does not in the least affect the absolute value.

All this is different in the case of production cost. Any change in the correlation and distribution on newly created value inasmuch as it affects the level of the monetary expenditures of the enterprises is conducive to a change in the absolute cost of production. For example a direct increase in wages is not reflected

in the value of goods if it merely changes the proportion in which the newly created value is divided between the direct participants of the particular production and the whole society. The same wage increase, increasing as it does the expenses of the enterprises, involves a corresponding increase in production costs.

The growth of public labor productivity is directly conducive to a reduction in value. The level of labor productivity and the extent of value are inversely proportional to each other. The growth of labor productivity on the other hand exerts an indirect rather than direct influence on production costs through the changes of expenditures and wages.

The reduction in the cost of production based on growing labor productivity coincides with the reduction of the commodity value only in the event that growing labor productivity is not accompanied by growing wages. In the event of a simultaneous growth of labor productivity and wages, a reduction in production costs can be achieved only to the extent that the rate of growing labor productivity exceeds the rate of growing wages.

The above peculiarities of production costs, reflecting in monetary terms not only the amount of labor involved but also the relations in the distribution of the newly created value between surplus and consumption, provide an important level for state control through the medium of the ruble over the amount of labor and consumption of every single enterprise.

It should be pointed out in this connection that the change of proportions in the distribution of the newly created value between surplus and consumption is reflected in the cost of production only in case it is connected with a simultaneous change in

the enterprises' expenditures. An increase in real wages not accompanied by an increase in nominal wages is not conducive to increasing production costs.

For example a 10% increase in the consumption of the workers employed in the national economy can be achieved in 2 ways. The first method expressed in a 10% wage increase results in a higher cost of production if the wage increase is not compensated for by a corresponding increase in labor productivity. The second method is the reduction in prices and tariffs on goods and services. In this case wages are not raised but the material expenditures in the national economy are reduced to the extent that the reduction in prices and tariffs affect the purchase of goods which are partly used in production. The reduction in production costs in this case coincide with the reduction in value.

The cost of production of industrial goods includes the following expense elements of an enterprise: wages plus allocations for them, compensation for the wear and tear of the basic facilities, and the cost of the resources used in production, such as raw materials, materials, fuel, and power, and other monetary expenses which do not come under any category of the above listed expense elements.

Wages and allocations for wages account for an average of about 1/5 of production costs in industry. It should be pointed out however that this average figures does not provide an accurate description of the actual national economic significance of economizing the amount of wages paid per unit of production. The sparing use of wage expenses, in addition to directly affecting the cost of commodity production in every branch of industry,

exerts an influence on industrial production expenses and other branches of the national economy through prices on raw materials, materials, and fuel. The share of wages in the extracting branches of the heavy industry is over 60%. The sparing use of wages paid per unit of production under such conditions largely serves to determine the price level of raw materials and fuel and thereby also the material expenses in all branches of the national economy.

One of the essential peculiarities of a socialist economy is the simultaneous increase in the national economic surplus and in the income of the working people. In industry this is manifested in the fact that in the process of development in the socialist economy (a) wages and salaries increase and (b) the amount of wages per unit of production systematically decreases. The simultaneous increase in the wages of workers employed in the national economy and decrease in wages per unit of production is made possible by labor productivity growing at a faster rate than the increasing wages. The faster rate of growing labor productivity as compared with average wage increases serves to produce a material base both for growing real wages and a greater volume of consumption of the whole socialist society.

"... The growth of labor productivity must outstrip growing wages. Only under such conditions will it be possible to create a material base and accumulate the necessary surpluses to insure further wage increases and expand production, which calls for a larger volume of production resources, to restore worn and obsolete equipment, to satisfy the constantly growing cultural demands, to train and educate the growing generation, and to manage the state and its defense" (VKP(b) v rezolyutsiyakh i resheniyakh s"ezdov, Konferentsiy i plenumov TsK, Part I, 1940, page 627).

The great strength of the Soviet social system consists in the fact that it created the conditions for a high degree of personal interest on the part of every worker in the results of his labor and, equipping him with modern machinery, secured a higher degree of socialist labor productivity than under capitalism.

The most important methods of increasing labor productivity and thereby reducing the cost of goods of the Soviet industry are (1) the complex mechanization of labor consuming and hard work, the automation of production, and intensification of production processes, (2) a rise in the cultural-technical and qualification level of the working class, (3) the improvement in labor organization and the concomitant elimination of unproductive loss of working time, and (4) better economic stimuli for growing labor productivity.

The basic method used by the Communist Party and its subordinate organizations to insure the steady increase of production activities among the working class, Soviet technical intelligentsia, and other workers, and to find and mobilize additional reserves for the growing productivity for socialist labor is the development of socialist competition and the movement of innovators in production. The peculiar feature of the present stage of socialist competition consists particularly in the selection and wide popularization among all socialist enterprises of the best examples of the most efficient labor set by the leading toilers of the working class and the Soviet technical intelligentsia (the method of engineer F. Kovalev, lathe turner V. Kolesov, etc). The wide popularization of the advanced production experience of the best members of the working class and technical intelligentsia and the

introduction into production of the achievements of Soviet science provide a powerful source for still higher tempos of growing labor productivity and reducing the cost of industrial production.

The compensation for the depreciation of the basic facilities is reflected in the cost of goods in the shape of deductions for amortization which are fixed in percentage terms of the initial cost of the operating machinery, equipment, buildings, and installations. These norms are differentiated for various branches of the national economy and enterprises according to the type of production equipment and installation, the degree of exploitation of the basic equipment, and the life of the equipment and installations. Thus in 1938 the amortization deductions in the heavy industry were fixed at 5.6%, and in the oil industry 13-14% (of the inventory value of the wells).

The development of technical progress in the national economy of the USSR tends to increase the share of basic equipment depreciation in the cost of the goods. At the same time the increasing labor productivity, which is facilitated by technical progress, makes possible a relative decrease in the depreciation of basic equipment per unit of production. A decrease in the basic equipment depreciation per unit of production can be achieved (1) by decreasing the value of the material elements of the basic equipment, (2) by improving the effective utilization of the basic equipment, and (3) by perfecting the basic equipment.

Inasmuch as the amortization deductions are fixed as percentages of the initial cost of the basic equipment, a reduction in the value of construction and assembly work and in the prices of equipment will, everything else being equal, produce a decrease

in the absolute amortization deductions. With amortization funds being equal, the degree of depreciation of basic equipment depends on its productive utilization, that is, on the increasing scale of production.

An increase in the production volume with the same basic equipment is conducive to a decrease in the amortization deductions per unit of production. The economical use of the basic equipment is also made possible by the constant perfection of the machinery which in turn tends to decrease the depreciation of the basic equipment. Prolonging the life of the machines means not only a reduction in the expenditures involved in replacing some of the worn out basic equipment but also an economy in the expenses connected with the repair and maintenance of the equipment.

The socialist social system has produced a basic change in the attitude of the working people toward the implements of labor. In a capitalist society the implements of labor loom before the worker as alien property, as a means of exploiting his labor. Under socialism, where the implements of labor are under public ownership and where the machines not only save labor but also lighten the toil of the workers, the vital interest of all the workers in saving the implements of labor and in their economical use is steadily increasing.

- The cost of raw material and auxiliary materials becomes an integral part of the value of the product for which they are used. In this way "in proportion as labor productivity increases, the value of the raw material forms a constantly increasing integral part of the commodity value not only because it is entirely included in the latter but also because the 2 elements contained

in every product, one representing machinery depreciation and the other, the additional labor involved in its production, become smaller. This downward trend results in the relative increase of another element of the value, the raw material, as long as that increase is not offset by a corresponding reduction in the value of raw material resulting from growing labor productivity in the production of that same raw material" (Marx, K., Kapital, Vol 3, 1951, pages 114-115).

The expenditure of raw and auxiliary materials and other production resources accounts for over 2/3 of all industry's expenditures on the production of goods. Hence the great importance of saving production materials and their economical utilization for the determination of the price level. A reduction in the expenditure of production resources and the concomitant reduction in production cost can be achieved by reducing the quantity of material used per unit of production and decreasing the value of the material elements of the production resources.

The planning of material expenditures is based on progressive production norms which take into account the technical progress made in the national economy of the USSR and expressed in the use of the latest technical equipment, on the improvement in the processing of raw materials and in the methods of fuel utilization, in the reduction of production losses, in the methods of storing and transportation, in the efficient utilization of by-products, etc. In the setting up of such production norms account is taken of the achievements of the leading enterprises, plant shops, production brigades, and the production innovators among the workers and engineering and technical intelligentsia in their struggle for economizing on material resources.

A reduction in the value of the material elements of production resources can be achieved by a straight reduction in prices. In this case a reduction in the cost of production and an increase in profit is compensated by reducing the profits in other branches of industry. The total amount of profit however does not change. At the same time the expenditures of the particular industry on the purchase of materials, fuel, power, semimanufactures, and manufactures can be reduced while preserving the existing prices through the system of consumption. For example the average price of a ton of conventional fuel used by power plants can be lowered, without affecting the existing set prices on fuel, under the influence of the following factors: (1) an increase in the fuel brought from nearby places and a corresponding decrease in the fuel hauled in from distant places, and (2) a reduction of the amount of expensive fuel and a corresponding increase in the amount of cheap fuel. In the first case the transportation cost of fuel will be reduced, and in the second case the average price of a ton of fuel will be reduced. The average cost of one t of sulfuric acid to the enterprises of the chemical industry depends entirely on the specific weight of the various types of the processed raw materials (waste gases or iron pyrites, for example). The increase in the specific weight of sulfuric acid produced by way of utilizing the waste gases brings about a sharp reduction in the average cost of this product. In all the above-listed cases, a reduction in the cost of production by way of changing the average prices reflects a real economy achieved by the respective branches of industry.

The item "other financial expenses" consists of expenses that cannot be charged to wages or material expenditure, for example,

postal and telegraph expenses, rentals for buildings, transportation costs connected with business trips, interest paid on loans for revolving funds, etc.

A thorough economy of other financial expenses is very important for the national economy because in addition to effecting considerable financial savings it facilitates the improvement of the administrative machinery of the enterprises and the elimination of all sorts of excesses that are still noted in their operations.

The practice of covering the expenditures of socialist enterprises by their income calls for the establishment of state prices on industrial goods on the basis of cost.

The cost of producing goods by different enterprises however cannot serve as a basis for state prices. The utilization of the law of value in a socialist economy finds its reflection in the planned fixing of uniform state prices on the same goods.

The state fixes uniform state retail prices (for the whole territory of the Soviet Union or a specified area) on consumer goods. The uniformity of state retail prices is very important for the consistent realization of the socialist principle of distribution according to work inasmuch as it insures the same monetary purchasing power for all workers.

The state establishes uniform wholesale prices (for the whole territory of the Soviet Union or a specified area). The uniformity of wholesale prices in turn insures the following.

(a) A uniform measure of material expenditures for all consumers of the given product which strengthen state control over production expenditures. A difference in the prices on the same product, depending on the supplier of such product, would have upset the method of calculating production costs and complicated the control over the costs of construction. Inasmuch as material expenditures account for $2/3$ of industrial production costs, the price differentiation according to material expenditures would make it impossible to compare the cost of the same product by various producers.

(b) A uniform criteria for estimating the results of enterprises' production operations. With different prices for the same product, any 2 enterprises producing an identical quantity of the same manufactures would have different volumes of their products expressed in terms of value, and different incomes from the sale of those products. In this case the prices would have lost their significance as a criterion of public expenditures since they would express not the social conditions of production in the particular industry but the conditions of work in the different enterprises.

The uniformity of wholesale and retail prices is to be based on the industry's production costs. Prices cannot be determined on a production cost basis by different enterprises. Prices based on the expenditures of each individual enterprise would have meant the elimination of prices as a weapon of control over the amount of labor expended and the reduction of the role of wholesale prices to a purely technical means of settling accounts among enterprises and could lead to the loss of the economic

stimulus for reducing production expenses by the USSR's enterprises. That is why prices are based not on individual production expenditures but on the industry's production costs which reflect the social conditions of production in the particular industry.

When determining the production cost level as a basis for prices account is taken not only of the conditions of the given period but also of the prospects of development of the respective branch of economy. The price is built not on actual cost but on the basis of planned production cost which takes into account the available reserves for a further reduction in production expenditures. The price does not thereby lend itself to a passive adaptation to the cost level but exerts an active influence on that level.

The uniformity of prices on the same products and the construction of prices on the basis of the industry's production costs may involve certain losses on the part of some enterprises which lag behind the average enterprise of that particular industry in their technical development and production organization. The losses of such enterprises are covered by a redistribution of income carried out in the respective branches of industry.

Difference in the cost level of the same products at various enterprises emerge however not only as a result of some enterprises lagging behind the average enterprise of the particular industry in technological development and labor organization. In a number of cases these differences are due to the peculiarities of the geographic location of the enterprises in the USSR. Inasmuch as the condition for the development of different branches of industry are different in various economic areas of the USSR (different

transportation rates, different wage rates, different scales of production and specialized production), area (belt) differences in the costs of such products are absolutely unavoidable. In such cases the industry's production costs are represented by the cost produced by equalizing the expenditures of the enterprises of the particular economic area (belt), and the prices calculated on that base become the uniform prices not for the entire country but for the particular economic area (belt).

In the extracting and power producing industries there may be big differences in the cost of the same product due to the fact that certain enterprises operate under particularly favorable natural conditions which make for a high labor productivity.

Thus in the lumber industry, the expenditures of woodworking enterprises are determined largely by the quantity of wood per hectare of forest and by the quality of wood.

In the coal industry the cost level of various enterprises is determined by the geological conditions of coal mining and particularly by the depth and structure of the coal deposits, their capacity, etc.

In the ore mining industry the cost of mining basic ores is subject to sharp fluctuations depending on the availability of precious and rare metals. The greater the amount of these highly valuable components contained in the ore the less the expenditures on the basic material.

In the electrical industry the cost of power produced by hydroelectric stations is considerably lower than that produced by thermal stations. The determination of industry's cost and

the formation of uniform prices under such conditions will be considered later in connection with the characteristic features of wholesale prices of industrial products in the methods of their function.

The Profit of an Industrial Enterprise

In a socialist society where the exploiter classes and their appropriation of the fruits of public labor have been eliminated, the social reasons for the existence of various forms of surplus value, entrepreneur's profit, capitalist rent, and interest on loans, have completely vanished.

In a socialist society the entire current national product, the national income, belongs to all the working people. There the antagonistic contradiction between necessary and surplus labor, peculiar to capitalism, no longer exists. Under socialism the labor of the workers used by the society for expanding production, improving public health service, organizing the country's defense, etc is just as necessary for the working class in power as is the labor used to satisfy the personal needs of the worker and his family. But since under the socialist stage of development there is an objective necessity for delimiting the personal share of the producers and the share to be used by society as a whole, use has to be made of such value instruments that would insure the realization of society's share and its concentration in the hands of the socialist state. These value instruments are the profits of the socialist enterprises and the turnover tax.

It should be pointed out at the outset that the use of the word "profit" as applied to the distribution of the national income

in a socialist society is conditional. The point at issue in this case is that such old concepts do not fit the new situation and should be replaced by new concepts expressing their new meaning.

The meaning of profit of a socialist enterprise (the enterprise's net income) has nothing in common from an economic point of view with an entrepreneur's profit under capitalism. Conditional also is the term "turnover tax," since it cannot be classed as a tax in the economic sense of the word. The matter under discussion in this case is the total state income as distinguished from the net income of the individual enterprise.

The correlation between profit and turnover tax under the 1953 state budget of the USSR is characterized by the following figures (see Izvestiya, 6 and 7 August 1953).

	<u>Amount in billion rubles</u>	<u>% of total</u>
Turnover tax	241.0	68.4
Profit	<u>111.5</u>	<u>31.6</u>
Total	352.5	100.0

The existence of 2 different monetary forms whereby prices are used to determine the share of the national income designed to meet the needs of the whole socialist society at a time when the entire national income belongs exclusively to the working people organized into their own state is explained by the necessity of utilizing the law of value for the control of public production and distribution by the Soviet state. The purpose of each of these 2 forms is that they perform their particular functions as instruments of socialist organization of production and distribution.

Profits represent the part of the price left after certain deductions have been made in favor of the state budget and the enterprise producing the commodity, and it is used for expanding the plant and improving the living conditions of the workers.

The apportionment of the enterprise's share of the commodity price and its designation as profit is connected with the system of management of socialist enterprises on a self-sustaining basis as practiced in a socialist society.

The profit of an enterprise consists of the difference between the wholesale price of its commodities (without the turnover tax) and the cost of producing these commodities. Thus the share of profit contained in the price of the commodities reflects the changing level of production costs. The profit volume at a given price is directly determined by (1) the volume and structure (assortment) of the goods produced and disposed of by the enterprise and (2) their production cost.

Since profit represents the difference between the price of a commodity and its production cost and its size is determined by the reduction in production cost the profit of a commodity or an aggregate sum of commodities is measured by the ratio of the profit volume to production costs. This ratio is expressed by a fraction in which the numerator represents the difference between the wholesale price (without the turnover tax) and cost and the denominator represents the cost. It is obvious that such a fraction can be increased by a reduction in cost which increases the numerator and reduces the denominator at the same time. The cost of commodities measured in wholesale prices (without the turnover

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tax), for example, is 10.5 million rubles. The production cost of the same commodities amounts to 10 million rubles.

The profit volume in this case amounts to 10,500,000-10,000,000 = 500,000 rubles.

The profit rate can be determined in the following way.

$$\frac{10,500,000-10,000,000}{9,000,000} \times 100 = 5\%$$

It should be pointed out here that the percent of profit accretion is higher than the percentage rate of reduction in cost and the profitableness therefore increases faster than the profit. Using the same example let us assume that the production cost of all commodities was reduced by 10%. In such a case the profit volume will amount to

$$10,500,000 - (10,000,000 \times \frac{100-10}{100}) = 1,500,000 \text{ rubles}$$

which is a 3-fold increase.

The profitability level will change as follows.

$$\frac{10,500,000-9,000,000}{9,000,000} \times 100 = 16.7\%, \text{ that is, over 3.3 times.}$$

The profit volume and profitability level serve as very important indexes of the successful production activities of an enterprise or branch of industry.

The distribution of profits in the USSR is carried out in such a way as to make the entire labor force of an enterprise as well as its individual workers keenly interested in increasing such profit and consequently also in expanding production and reducing production costs. The profit may be deducted from the

budget only after the needs of the enterprise as specified in the plan have been met. Part of the profit is credited to a special director's fund of the enterprise. That fund is used for the construction of housing for the enterprise's workers and employees, for the organization of creches and kindergartens, sanatoriums, sports stadiums, for prizes to distinguished workers, and for material assistance to certain workers and employees.

The encouragement of workers whose successful achievements facilitated the fulfillment of the enterprises' obligations to the state is widely practiced in the Soviet industry. Instituted for that purpose (in addition to the director's fund) are awards of premiums to enterprise officials and engineering and technical personnel for implementing the production plan and simultaneously reducing production costs. At the same time, enterprise officials incurring losses through their mismanagement are held accountable by the state. The award of premiums for fulfilling and overfulfilling the production plans and reducing production costs implies also the fulfillment of the plan in regard to the prescribed range and quality of products. Making profits by violating the planned assortment and quality of goods is considered a crude violation of the state plan.

What determines the size of the profit in the prices of industrial commodities fixed by the government? What determines the principle of socialist profitability? The basic change in the essence of profits in a socialist society consists particularly in the fact that the profit level of an enterprise or branch of industry is not a determining factor in the expansion or reduction of production.

This is the result of the restrictions on the operations of the law of value in a socialist society, a law that no longer serves as a regulator of production or as a regulator of the proportional distribution of labor among the various branches of industry. This however does not necessarily mean that the principle of production profitability lost its significance for a socialist economy. The reverse happens to be the case.

Profitability of production as a whole, the only source of expanded reproduction, continues to be significant for a socialist society. Moreover the operation of the law of the systematic development of the national economy in a socialist society makes possible the attainment of such a high degree of profitability of public production as a whole that the temporary and unstable profitability of capitalist enterprises can in no way be compared with it.

That is why it is impossible to solve the problem of the economic development of a particular enterprise or branch of industry by their profitability indexes alone. Such a solution must take into account the interests of the entire national economy.

It is known that in case of necessity the Soviet state has been and is creating certain enterprises or branches of industry which, though unprofitable at least in their initial operations, serve to create the prerequisites for a smooth and uninterrupted development of the entire national economy and thereby insure a high degree of profitability for socialist production as a whole.

"It would be wrong however to conclude from this that the profitability of individual enterprises and branches of industry

is of no particular value and is not worthy of serious attention. This of course is incorrect. The profitability of individual enterprises and branches of industry is highly important from the viewpoint of the development of the USSR's production. It must be taken into account both during the planning of construction and the planning of production. This is the ABC of the USSR's economic activity at the present stage of development" (Stalin, I. V., Ekonomicheskiye problemy sotsializma v SSSR, page 56).

The profit of an enterprise and a branch of industry is an important element in the organization of production on a self-sustaining basis. Inasmuch as the operation of an enterprise or branch of industry as well as the salaries of officials and engineering and technical workers is assessed on the basis of the profit indexes, profit becomes a powerful stimulant for reducing production costs and maintaining an economy regime at the enterprises.

The necessity of fulfilling the state plan assignments in regard to profits tends to educate the USSR's economic managers in a spirit of rational production management. It trains them in discipline, teaches them to think in terms of production volume, calculate expenses, find and utilize hidden reserves in production, systematically improve production methods, reduce production costs, and realize the economic accounting plan. This is a good practical school which accelerates the development of the USSR's economic cadres turning them into real leaders of socialist production at the present stage of development.

Requiring all enterprises to systematically raise their profitable operations, the party teaches the USSR's economic cadres

that only a reduction in production costs can serve as a solid basis for the profitable operations for the industry and other branches of the national economy. Only under such conditions can profit be considered as a really healthy source of socialist surplus accumulation. Placing the emphasis on profits derived from high prices would have been exceptionally harmful to the development of the USSR's national economy.

"The thesis that the policy of high industrial prices is dictated by the interests of surplus accumulation and industrialization tempo is absolutely wrong and inconsistent. With the maintenance of a high price level in the absence of competition, the main stimulant for the improvement and development of a capitalist economy under conditions of a monopolized production, market and foreign trade may produce the danger of the USSR's production and trade machinery becoming bureaucratized and of the interest in the steady improvement of production and trade growing weaker. The policy of latent accumulations, the speeding up of unplanned capital expenditures under the guise of current repairs, and the increase in profits accompanied by excessively high expenses, particularly trade expenses, are brought about by a policy of high prices and tend to harm the national economy instead of benefiting it and to frustrate the implementation of the development plans instead of speeding it up" (VKP(b) v resolyutsiyakh i resheniyakh s"ezdov, Konferentsiy i plenumov TsK, Part II, 1940, page 161).

Thus it is not the increase in prices but the systematic reduction of production costs which is conducive to the development of profitable operations by socialist enterprises.

The question of the profitability level (remunerativeness) must be considered in conjunction with the functions that profit is designed to perform. Profit is one of the forms representing the share of the whole society in the newly created product (national income). Therefore, profit cannot in the final analysis be subordinated to the general laws governing the distribution of the national income between the direct producers and society as a whole.

It would be wrong however to identify the conditions of such distribution of the national income with the formation of profit which performs its specific function in the planned management of production. Indeed the discussion of the factors determining the part of the national income designed to meet the needs of the whole society implies (a) the amount of labor used in material production, (b) the productivity of public labor, and (c) the correlation between surplus accumulation and consumption in the national income.

A discussion of the size and relative level of profits on the other hand implies the particular method by which the state industry commodities, expressed in prices and designed to meet the needs of the whole society, are divided between the state and the respective enterprise. This relation is determined by the utilization of profit as a lever of economic accounting.

The role of profit in an economic society consists first of all in the fact that it serves as an additional stimulus for the development of production on a self-sustaining basis. The rate of profit provided for in the wholesale prices should as a rule be sufficient to insure a certain minimum of funds for the

development of production and the material stimulation of the workers of the particular industry. It should also be kept within certain limits so as not to weaken the incentive to economize on production and circulation expenditures. The negative feature of high profits is that they make it possible for the enterprises to live "an easy life," to work without exertion and without the full utilization of their reserves.

Another powerful source of financial accumulation in a socialist economy in addition to profit is the turnover tax. Therefore it is not necessarily imperative that all the expenses of every branch of industry connected with the expansion of reproduction be fully covered by their own profits.

What then is the minimum of expenditures to be covered by the enterprise's own profit? To answer this question it is necessary to bear in mind the particular purposes for which the profit is to be used within the industry. There are at least 4 of them: (1) the accretion of revolving funds of the operating enterprises, (2) capital investments, (3) the setting up of revolving funds at newly commissioned enterprises, and (4) deductions from the planned profit in favor of the enterprise director's fund.

The deductions from the planned profit in favor of the enterprise director's fund are specified (in percent) for every branch of industry. Consequently the problem to be decided is to what extent each branch of industry is to participate in the financing of expenditures required to increase the revolving funds of the operating enterprises as well as the financing of its capital works and the revolving funds for the newly commissioned enterprises.

Profit should also rightfully be expected to insure a minimum accretion of revolving funds of the operating enterprises. As for the expenditures on capital works in the setting up of revolving funds for newly commissioned enterprises, it is up to the respective branch of industry to finance such expenditures with its own profits. Small as its financing share may be, it would still serve the particular branch of industry as an incentive for fulfilling and overfulfilling the profit plan and thereby also for economizing on expenditures.

Inasmuch as the planned profit level is basically determined by considerations of expanded reproduction in various branches of industry, which are reflected in the growing capital and revolving production funds, it would be wrong to establish a uniform profitability level for all branches of industry.

In our actual economic activities we come across a high degree of differentiation of the branches of industry in regard to their expenditures on capital works and accretion of revolving funds. This differentiation is largely due to the following reasons.

First the difference in the tempo of reproduction. Everything else being equal, the expansion of reproduction implies a faster rate of development of the industry producing the means of production and consequently a larger volume of capital work in that industry.

Second the difference in the types of production facilities, particularly the basic implements the cost of which is gradually reduced and charged to the output through depreciation. If, for

example, the correlation between the capital stock and working production facilities in the light industry is approximately 1:1 and in the food industry 1.5:1, then the same ratio in the metallurgical industry rises to 3.5:1, in the coal industry to 5.5:1, in the power-producing industry to 7:1, and in the oil industry up to 15:1. Obviously the greater the share of capital production stock, the higher the expenditures on capital stock expansion under conditions of the same rate of increase in the output volume.

Third the difference in the turnover rate of working capital. The faster the turnover rate of working capital, the less the relative need for an increase in working capital. In the light industry the turnover rate is 1.5 times faster than in the metallurgical industry.

The financing of capital work and the setting up of working capital at new enterprises cannot be uniform in all branches of industry. The price level existing at individual branches of industry is directly related to the prices of the other branches of industry using its commodities. The peculiar feature of the raw materials, fuel, and power industries incidentally is that the output of these industries is in many ways incorporated into the products of various branches of the national economy. Every ruble increase or reduction in the price of coal, ore, oil, or electric power involves an additional several-ruble increase or reduction in the prices of other branches of industry. The situation is different in the case of the machine-building, light, and food industries producing largely finished products which are put to use without any additional industrial processing.

That is why from the point of view of general price level reduction in the national economy it would be right to take a differentiated approach to the determination of the respective industry's particular share of financing the capital work and setting up a working capital in newly commissioned enterprises, a smaller share in the case of raw material, fuel, and power industries and a larger share in regard to the machine-building, light, and food industries.

Of great importance in the determination of the profitability of any branch of industry, as we shall see further, is the establishment of a value relation between allied and interchangeable groups of products bearing in mind the economic policy problems involved. The higher cost involved in the production of non-ferrous metals, as compared to ferrous metal, is motivated by the necessity of encouraging the replacement of nonferrous metal by ferrous metal in a number of branches of industrial production.

In addition to the mentioned factors, the profitability level is also affected by the peculiar features of production in various branches of industry involving seasonal and territorial deviations from the average production cost level. The relatively higher level of profitability in a number of branches of the food, dairy, and fishing industries as well as in certain branches of the heavy industry (power plants) is due to such deviations.

Turnover Tax

Unlike profit, the entire turnover tax is placed at the disposal of the state. The simultaneous existence of profit and turnover tax is due to the fact that in view of the deviations of

prices from value the prices of commodities of certain industries contain part of the value created by other branches of the national economy. Thus the prices of the light industry goods contain part of the value created by the heavy industry. The wholesale prices on various types of industrial raw materials used primarily for the production of the means of production are fixed at a cost-plus-minimum-profit level. In cases where the raw material is used for the production of consumer goods the state cannot but recompense society for all its expenses involved in the production of the raw material. The difference between the public expenditures on raw material production and its wholesale price is expressed in the price of the finished product in the form of financial accumulation.

The value of agricultural raw materials supplied mostly by the collective farms accounts for a large part (60-80% of the cost) of the expenditures involved in the production of various types of foodstuffs and industrial consumer goods. A considerable part of the public expenditures on production of agricultural raw materials is assumed by the state (the work of the machine-tractor stations, swamp drainage, land reclamation, afforestation, the supply of high grade seeds and pedigreed stock, pest extermination, zootechnical and veterinary service, etc). Therefore the total expenditures of society involved in the production of agricultural produce do not coincide with the values created by the labor of the collective farmers. They exceed it by the amount (value) of labor invested by the workers of the state enterprises servicing collective farm production. However, inasmuch as the prices on industrial goods produced from agricultural raw materials must insure the compensation for all public expenditures involved in their

production, the value created by the workers of the state enterprises servicing collective farm production is realized in the prices of the goods of the light and food industries.

In addition the prices of industrial goods produced from agricultural raw materials contain part of the value created by collective farm production since the fixing of government procurement prices takes into account the objective necessity of the collective peasantry's contribution, along with the working class, of part of their labor toward the satisfaction of all people's needs (the development of production, social and cultural needs, state administration, and the country's defense).

The turnover tax is an important instrument for the mobilization and concentration in the hands of the state of all the financial resources designed to meet the people's needs. The advantage of that instrument is that it permits the rapid accumulation of these resources, without losses, in the hands of the state. The turnover tax is credited to the state budget immediately upon the sale of goods which prevents the freezing of considerable financial funds. The amount of turnover tax credited to the budget at any given time depends only on the volume and variety of the sold commodities. Thus the revenue of the state budget from turnover taxes is not subject to fluctuations according to the fulfillment or nonfulfillment of cost reduction plans by various enterprises or branches of industry.

The turnover tax is widely used by the Soviet state in the construction of the price system. The establishment of uniform prices under conditions of existing differences in the production costs at various enterprises implies the utilization of the

turnover tax as an instrument for compensating such differences in production expenditures. This is achieved by way of establishing differentiated turnover tax rates for various groups of enterprises. It is thus made possible for the overwhelming number of enterprises to operate without a loss while preserving a uniform price.

The following 3 methods are employed in the process of price formation to determine the turnover tax in the price of commodities: (a) in the form of a difference between the retail price minus the trade rebate and the wholesale price without a turnover tax; (b) as an interest rate (percent of wholesale or retail price); and (c) as an absolute ruble rate per unit of commodity weight.

The collection of turnover tax in the form of the difference between the retail price minus the trade rebate and the wholesale price without a turnover tax was introduced in 1939 in the textile industry and was later extended to a number of other industries.

The essence of this system of levying a turnover tax consists in the following. The government approves a list of wholesale prices, without turnover tax, covering the entire nomenclature of goods subject to turnover tax and the list of various retail prices. The statements of account drawn up by the industry's marketing organizations or individual enterprises show the retail price as well as the wholesale price, without the turnover tax, of each item. The difference between the cost of a given shipment of goods, in terms of retail prices minus the trade rebate, and in terms of wholesale prices without the turnover tax is credited to the revenue part of the state budget.

The advantage of such a system of levying turnover tax consists in the fact that it makes it possible to maintain a relatively similar level of profitability in regard to all the commodities produced by the particular branch of industry. The wholesale prices without the turnover tax are determined for each item (commodity unit) on the basis of its cost and the planned profit level. This precludes the possibility of producing "profitable" and "unprofitable" types of goods, as measured by the profitability level, which is very important for the improvement of economic accounting and the successful realization of the plans in regard to the range of products.

It should be pointed out however that the collection of turnover taxes by the method of budgetary differences involves certain difficulties for the financial institutions in checking the payments of turnover taxes by the economic organizations. Since the turnover tax rate is different for different manufactures, the checking of such payments frequently requires a detailed accounting of the entire range of products. Therefore wherever it is possible to insure a relatively uniform profitability on various groups of products through the introduction of a relatively small number of differentiated tax rates the collection of turnover taxes is realized in the form of interest rates.

The collection of turnover taxes in the form of interest rates is realized in the case of a considerable quantity of mass consumption goods with a relatively limited assortment (motorcycles, bicycles, watches, radio sets, phonographs, electric bulbs, matches, etc), in regard to building materials and articles sold on the open market, and in regard to commodities produced by the

local state and cooperative industry. The turnover tax on the mass consumption goods subject to uniform state retail prices is as a rule expressed as a percentage of the final retail price. As for building materials and articles, only part of which are subject to fixed retail prices and the products of the local state and cooperative industry not covered by uniform retail prices, the turnover tax is expressed as a percentage of the wholesale prices which also include the turnover tax. For example, if the wholesale price (including the turnover tax) is 1,000 rubles, the turnover tax rate is 25%. In this case the turnover tax realized through the price of goods amounts to 250 rubles.

In the case of oil products the collection of the turnover tax is realized in the form of an absolute ruble rate per unit of weight. The employment of this method of tax collection is explained by the technical difficulties involved in calculating the turnover tax on oil products in the form of interest rates since the wholesale prices on oil products are differentiated according to zones. The levying of turnover tax in terms of fixed rates per commodity unit has not been extended to other goods since that system makes it extremely difficult to take into account the differences in production costs as well as in the range of products among different enterprises.

Expenditures Involved in the Circulation of Commodities and Turnover of the Means of Production

The turnover of consumer goods and means of production between the cities and villages and among the various branches of the national economy and districts of the country is a necessary precondition for the expansion of socialist reproduction. The turnover

of goods within the country includes: (1) circulation of consumer goods; (2) turnover of production implements among state enterprises; and (3) turnover of agricultural materials between the collective farms and the state industry.

The economic turnover of consumer goods and production means involves additional costs to the socialist society and the compensation for such costs through the prices on goods. We shall accordingly consider the handling costs of state and cooperative trade, the costs of wholesale marketing of production means, and the costs of agricultural raw material procurement.

As Marx points out in the second volume of Kapital, handling costs are by their economic nature not uniform. It is first of all necessary to distinguish the so-called "net costs" of handling.

"These are the costs required to convert value from a material into a monetary form."

Such costs in a bourgeois society include the cost of working time used up in the purchase and sale of goods, the costs of advertising and bookkeeping, as well as the costs connected with the circulation of gold and silver coins. These costs, produced by a simple change in the form of commodity value, do not add any value to it. They represent a deduction from the surplus product created in the process of production.

Of an entirely different nature are the circulation costs conditioned by "production processes which are carried over into circulation and whose productive element is consequently merely concealed in the form of circulation" (Marx). These are the handling costs of commodity circulation flowing out of the production process

(the accumulation of necessary commodity reserves, transportation, packing, and further handling of goods) which are added to the value of these goods.

A peculiar feature of capitalist economy is the increasing handling cost of goods in circulation, particularly the so-called net handling costs. Therein lies the antagonistic contradiction between the social nature of production and the capitalist method of appropriating the fruit of production which is peculiar to a bourgeois society. The growing contradiction between the increasing productive potential of the industry and the diminishing purchasing power of the working masses, under imperialism and particularly under conditions of a general crisis of capitalism, is conducive to a higher rate of capitalist costs involved in the realization of the produced material values and in the conversion of such values from a material into a monetary form.

The socialist nationalization of the means of production and the elimination of private capitalist elements from the sphere of commodity turnover in the USSR created the possibilities for a sharp reduction of handling costs in commodity circulation. The contradictions between the nature of production and the method of appropriating the results of production typical under capitalism is unknown in a socialist society. The maximum satisfaction of the growing material and cultural demands of society is the motive force and purpose of socialist production. This also precludes the possibility of overproduction crises and eliminates squandering in the sphere of commodity circulation. The socialist nationalization of the basic means of production and the operation of the law of systematic and proportional development of the

national economy enable the Soviet state to plan the commodity turnover, commodity reserves, and different methods of freight transportation on a country-wide scale. The state planning of commodity circulation makes possible the most rational utilization of material and labor resources in the sphere of commodity circulation thereby keeping the handling costs of circulation down to a minimum.

Marx pointed out that "the concentration of production reduces bookkeeping costs and such costs are still further reduced when bookkeeping becomes a public accounting."

The destruction of capitalism and all forms of capitalist competition frees society from the squandering of material facilities and working time which is part of the capitalist trade and its mad advertising. The concentration of commodity turnover in the hands of the socialist state creates the possibility of a rational arrangement of the food distribution network and an economical use of labor required in the marketing of goods.

The normal functioning of commodity circulation implies the existence of a permanent reserve of mass consumer goods. The costs involved in producing such a reserve (the expenditure of current and past labor required to maintain such a reserve and the material losses involved in the maintenance) are the inevitable costs of a socialist society. These costs however are incomparably lower than the ones required to maintain a permanent commodity reserve in a capitalist society.

First of all "the greater the concentration of public reserves the relatively smaller are such expenses" (Marx). Under

the state organization of foodstuff and material reserves in the USSR it is possible to take advantage of the high concentration of public reserves.

The greatest advantage of a socialist economy is the possibility of limiting the size of commodity reserves to the actual requirements of public production and national consumption while under capitalism part of the commodity reserve always lies idle, its existence being determined exclusively by marketing difficulties.

Finally, socialism creates unheard of possibilities for economizing on transportation costs both by way of raising the efficiency of all means of transportation and by a more rational distribution of productive forces.

It is thus possible to define the following changes in handling costs made possible in a socialist society.

1. The losses sustained in the sphere of commodity circulation through the capitalist method of production are eliminated (faux frais of capitalist production).
2. The absolute and relative costs involved in the conversion of a commodity value from a material into a monetary form are considerably reduced. The planning of production and circulation in the USSR permits a sharp increase in the commodity turnover in wholesale and retail trade, a reduction in the maintenance cost of commodity reserves, and a reduction of freight hauling distances which in turn means a considerable economy in transportation expenses and fewer workers employed in the trade.

The average commodity turnover in the USSR before World War II took less than 30 days while in the US in 1929 it was 96 days and in Germany 83 days. In 1940 there were 12 trade and distribution workers per 1,000 population in the USSR, and 40 such workers in the US. If the small independent merchants were included, the number of people engaged in the trade and distribution in the US would rise to 47 per 1,000 population.

3. The structure of the costs involved in commodity circulation is changed. The expenditures involved in the conversion of commodity values from a material to a monetary form are reduced and the expenses involved in continuing the production process in the sphere of commodity circulation are increased.

We shall cite by way of example the structure of the costs of retail trade in the USSR existing in 1947 (in percent of the total).

Transportation expenses	21.5
Wages plus extra charges	37.3
Rent, maintenance, and current repairs of buildings and inventory	13.6
Storing and packing of goods (including tare losses)	2.8
Commodity losses	6.1
Interest on credit	5.3
Administrative, managerial, and other expenses	<u>13.4</u>
Total	100.0

The relatively small share of transportation expenses in the cost of commodity circulation in the retail trade is brought about by the changes which have taken place since 1939 in the formation of prices on mass consumption goods. These changes stemmed

particularly from the introduction of a new system of commodity movement from industry to the trade network which was FOB delivery point. As a result all the expenses of transporting such goods by rail or waterway to the final delivery point were charged to the industry. The costs involved in the handling of retail trade still include the cost of long distance hauling of only a small part of the goods, mostly those produced by the local and cooperative industries and still sold FOB point of shipment.

At the same time the absolute amounts of these costs are considerably reduced. The commodity circulation cost as a whole in the USSR is several times smaller than in the bourgeois countries. Thus the cost of handling the state and cooperative retail trade in the USSR in 1940 amounted to 10% of the entire retail trade turnover while the similar retail trade costs in the US and England were 25-35% of the retail prices, and in the case of agricultural products purchased from the farmers (including the monopolies' profits) the retail trade costs amounted to 60% of the retail price according to the figures of the US Department of Agriculture.

The reduction of commodity circulation costs, despite their relatively low level as compared with the bourgeois countries, is nevertheless a matter of great importance for the national economy of the USSR.

A reduction in the cost of commodity circulation means, first, saving part of the labor employed in the field of commodity circulation and thereby increasing the labor resources available for material production, second, the expansion of the sources of socialist accumulation, and, third, one of the preconditions (in

addition to the reduction of production costs) for the implementation of the Soviet price policy.

The systematic development of the national economy implies the distribution of the means of production among the various branches of the national economy and individual enterprises according to the state plan. In contrast to the bourgeois economy where, in Marx's words, the whimsical game of chance determines the distribution of the commodity producers and their production implements among the various fields of public labor, such distribution of raw materials, materials, and production implements among the branches of national economy and enterprises in a socialist society is carried out directly by the state in conformity with the law of systematic and proportional development of the national economy. The distribution of the means of production by the state finds its reflection in the government-approved plans for the material and technical supply of the national economy. The realization of these plans calls for the creation of special economic organizations designed to distribute the material resources and deliver them to the consumer enterprises (the industry's marketing organizations) as well as for control over their activities. At the same time considerable material reserves constantly replenished by the state are required to maintain the uninterrupted development of the national economy of the USSR and to safeguard it from any untoward eventuality. The stockpiling of such reserves, their maintenance, and replenishment is carried out by special economic organizations equipped for that with the necessary material base.

The planned material and technical supply of the national economy as well as the maintenance of public material reserves are not inherent only to socialism, these functions retain their validity also in the second phase of the development of the communist society.

The peculiarity of the socialist economy in this respect is explained by the necessity of utilizing commodity forms and value forms for controlling the proper distribution and use of material resources. This is manifested in the following.

(1) The drafting of plans for the material and technical supply of the national economy and plans for the replenishment of the state material reserves both in material and value terms.

(2) The delivery of raw materials, materials, and production implements to consumer enterprises under economic agreements providing for financial settlements for the delivered commodities at wholesale prices, and the application of material sanctions in cases of violations of such agreements.

(3) The ruble control over the operations of the economic organizations entrusted with the material supply of the national economy and the maintenance of state material reserves.

Hence the existing costs of the material and technical supply of the national economy and the costs of maintaining state material reserves.

The characteristic feature of the costs of the material and technical supply of the national economy is that they largely represent the expenditures involved in continuing the production

process in the sphere of the turnover of production means as well as in the stockpiling of the necessary reserves for the uninterrupted supply of the national economy. The expenditures involved in the financial settlement for the commodities are relatively small.

Thus the expenditures of the Main Oil Marketing Administration consists of the following (in percent of total).

- | | |
|--|------|
| (1) Cost of transporting, loading, and unloading | 85.0 |
| (2) Storing and handling costs | 13.6 |
| (3) Administrative and management costs | 1.4 |

An economy of expenditures involved in the material and technical supply of the national economy, as well as expenditures for storing state material reserves, is of exceptionally great importance. The point is that such an economy means the following.

A reduction of losses incurred in storing and transportation and, by the same token, an increase in the material resources for the national economy.

A reduction in irrational hauling and by the same token an increase in the USSR's transportation resources.

A release of part of the workers engaged in servicing the circulation of material goods for immediate work and production.

And an acceleration of the turnover of facilities in the national economy.

The expenditures on the procurement of agricultural products are one of the essential factors in the formation of prices on

foodstuffs and industrial commodities produced from agricultural raw materials.

The economic aspect of these expenditures can be divided into (1) procurement expenditures, (2) transportation expenditures, and (3) storing expenditures. Procurement expenditures include the cost of maintaining a procurement staff, documentation work, and control of procurement operations. Transportation expenditures include the costs of delivering the products and raw materials to the warehouses of the procurement organizations or directly to the industrial enterprises. The storage costs include all the expenses involved in stockpiling products and raw materials required for the uninterrupted operations of the industry and the supply of the population with foodstuffs.

Both the level and structure of the procurement expenditures are determined by the conditions of procurement and utilization of a particular type of agricultural product. What is common to the procurement of all agricultural products however are the expenditures involved and their transportation and storing.

As was pointed out in the principal report to the Nineteenth Party Congress on the work of the storing, and marketing agricultural products are excessively high. This is explained first of all by the fact that the staff of the procurement, trading, and marketing organization is much too inflated and its work is poorly organized and is not controlled by the ministries.

The government measures on reducing and fixing expenses introduced in 1952 put an end to this lack of control on the part of the ministries over the cost of procuring, storing, and marketing agricultural products. As a result of those measures it became

possible to reduce the staff engaged in the procurement, storing, and marketing of agricultural products. However the possibilities for effecting a considerable economy in the costs of agricultural procurements have not yet been used to their fullest extent.

Inasmuch as the commodity circulation among the branches of the national economy, among the cities, villages, and districts of the USSR, as well as the planned distribution of the means of production between the branches of the economy and enterprises, are a necessary feature of the process of expanded socialist reproduction, the expenses involved in the circulation of commodities as well as the costs connected with the material supply of the national economy are subject to compensation and are included in the prices of goods.

In a socialist economy the existence of commodity circulation and turnover of production means and the realization of these functions by special economic organizations, which are guided by considerations of self-sustaining operations, call for a system of profits for the marketing and procurement organizations.

Depending on the nature of the commodity turnover, the costs of such turnover and the profits of the respective supply, procurement, and trading organizations serve to contribute in various ways to the formation of prices on goods. In cases where the marketing operations are carried out by the industrial enterprises themselves, the marketing expenses become an integral part of the cost (the enterprises' marketing costs) and the profit is an integral part of the industrial enterprises' gross profit. On the other hand where the marketing operations are carried out by special economic organizations their expenditures and profits produce a

special form of extra charge or rebate which are an integral part of the wholesale or retail price (extra charges of the industry's marketing organizations, charges of the supplying organizations, and rebates in favor of the wholesale and retail sectors of the trade. The costs of agricultural raw material procurements together with the profits of the procurement organizations are included in the wholesale price of agricultural raw materials and thereby also in the costs of the industry processing such agricultural materials.

CHAPTER III. STATE WHOLESALE PRICES ON THE MEANS OF PRODUCTION

State wholesale prices on the means of production are prices at which some state and cooperative industrial organizations sell their products to other state or cooperative organizations for production, exploitation, and construction purposes.

Under conditions of self-sustaining operations every state enterprise sells its products at state wholesale prices. It pays for raw materials, materials, fuel, and electric power at state wholesale prices. It accounts for the expenditure of materials in production in terms of the same wholesale prices. It maintains its financial relations with the state budget and the credit system on the basis of the existing wholesale prices. The state thus uses the wholesale prices as a means of exerting a strong influence on the financial and economic situation of the enterprises of the respective branches of industry by stimulating their successful fulfillment of production plans and a saving of added and embodied labor.

The wholesale prices on the commodities of various branches of industry are not uniform in structure.

In most of the branches of the heavy industry (coal, timber, chemical, machine-building, etc) the wholesale prices consist of (a) the cost of commodities and (b) the profit of the enterprise.

In a number of branches of the heavy industry the wholesale disposal of the commodities is concentrated in the hands of centralized marketing organizations and these organizations assume the cost of transportation of the goods to the final delivery point (station or harbor). In such heavy industry branches (cement and metallurgical) the wholesale prices consist of (a) the cost of the goods, (b) the profit of the enterprise, and (c) the expenditures and profit of the marketing organization.

Finally, in such heavy industries as the oil industry the wholesale prices of the industry also contain the turnover tax. In this case the wholesale prices consist of (a) the cost of the goods, (b) the profit of the enterprise, (c) the turnover tax, and (d) the expenses and profit of the marketing organizations.

The industries selling their goods FOB delivery point and paying turnover tax on their goods have 2 types of wholesale prices, the wholesale prices of the industry and the wholesale prices of the enterprise.

The wholesale price of the industry is the full and final price at which the commodities are sold outside the particular industry. It consists of the cost of the goods, the profit of the enterprise, turnover tax (on the goods subject to such a tax), and the industry's expenditures involved in the marketing of the

goods (that is the goods disposed of through the industry's marketing organizations FOB delivery point).

The wholesale prices of an enterprise, unlike those of an industry, consist of the following 2 elements: the cost of the goods and the profit of the enterprise. Consequently they do not include the industry's expenditures involved in marketing the goods. The wholesale price of the enterprise is the price charged by the enterprise to the industry's marketing organization.

Cost Planning as a Criterion for Price Determination

As we pointed out above, the reimbursement of an enterprise's expenditures on commodity production is the first elementary prerequisite for reproduction. Cost is the basis of price. The determination of state prices on the means of production therefore begins with cost planning.

When speaking of the determination of prices, we have in mind (a) the determination of the general level of prices on the goods of the particular industry, and (b) the determination of prices on different types of manufactures.

Implied in the first case is the planning of the cost level of the commodities of the industry as a whole, and in the second case the calculation of the cost of different types of manufactures. Any large scale revision of these prices must always include these 2 features.

In the event that prices are determined on the basis of the costs existing during a period already approved by the plan, all calculations to determine the prices are based on the data

approved by the plan. If the period used as a basis for the determination of prices is not covered by an approved plan, the determination of prices takes into account the elements of the planned cost of the industry commodity output. Such calculations begin with the planning of production costs. This plan consists of the following expenditure elements: (1) the cost of raw materials, materials, semimanufactures, and completed manufactures; (2) the cost of fuel, electric, and thermal power; (3) wages and the extra charges on them; (4) amortization deductions; (5) the wear and tear of nondurable and low cost instruments and inventory; and (6) other financial expenditures.

The cost of production thus determined cannot however be used as a direct basis for the determination of the general level of prices on the commodities of the particular industry. First of all, not all the costs specified in the plan are actually connected with the production of the category of goods for which the prices are determined.

We know that certain departments of an industrial enterprise may, in addition to their major functions, perform certain work which has nothing to do with their production program. Thus the labor force of production departments may be used for major repairs to buildings and installations. The expenditures involved in such jobs are reimbursed from a special, independent source, the amortization funds designed for capital repairs. The transportation department of an enterprise, which is maintained by general plant funds, may offer its services to nonindustrial sections of the particular plant or to other plants. The cost of these services is not included in the gross output of the plant

but is reimbursed from special income sources. The designing bureaus and laboratories of a plant may perform certain work not materialized in the shape of finished products (planning and designing and laboratory analyses for other enterprises and organizations, etc). The costs involved in such services, inasmuch as they are not embodied in the plant's commodities (so-called services not included in the gross output), should be deducted from the cost of production. When the cost of services not included in the gross production output is deducted from the cost production we get the amount of the plant's gross production cost.

But this index is still inadequate for purposes of price formation. When speaking of the source of income of a plant or branch of industry we always have in mind the realization of commodities, that is, such commodities that can be sold at fixed prices. The gross production output however includes, in addition to commodities, elements of uncompleted production. To maintain an uninterrupted production process, the enterprise must always have a certain reserve of semimanufactures, parts and components, that is, it must maintain a certain level of uncompleted production.

The expenditures involved in producing the elements of uncompleted production in the planning period should be deducted from the total plant cost of gross production since such expenditures are not connected with the creation of commodities in the given plan period. At the same time part of the commodities will be obtained during the plan period from the reserve of uncompleted production accumulated in the period under consideration. Obviously the cost of the reserve of uncompleted production created in the period under consideration and used to produce commodities

in the plan period must be added to the plant cost of gross production. Consequently, in order to change from the cost of overall production output to the cost of the commodities, the cost of factory gross production output has to be changed to account for the difference in the volume of uncompleted production between the end of the plan year and its beginning. The accretion of uncompleted production, valued at cost, should be deducted and the decrease in uncompleted production should be added.

The introduction of new products into production usually involves considerable expenditures for preparations, the designing of the products, the working out of technological processes, the production of experimental models of the products, etc. The costs involved in the initial production of new products are reimbursed over a period of up to 2 years from the time the first products are made, divided evenly according to the output of the new products. Thus the costs and reimbursements, as in all other cases dealing with so-called "future costs," do not coincide in time. The costs of mastering new production during a given plan period are excluded from the plant costs if they are not reimbursed within that particular period. On the other hand the cost of mastering the production commodities in the past years, charged to the commodity production of the current plan period, should be added to the gross output volume at factory cost.

Thus to change from the cost of the gross production volume to the cost of commodities account should be taken of the balance of expenditures involved in the mastery of the new production. If the amount spent to master the new production during the plan period is larger than the reimbursement, the difference is to be

deducted from the gross production costs. If the reimbursement is larger than the expenditures, the difference is to be added to the gross production costs.

The factory cost of commodities is determined as a result of such precise definitions. To compute the full cost of commodities, the nonproductive expenditures of the enterprise connected with the marketing of the commodities should be added.

In a general way the system of computing the full cost of commodities may be outlined in the following way.

1. The costs of raw materials, materials, semimanufactures, and finished products comprising the output.
2. The costs of fuel, electric, and thermal power.
3. Wages and the extra charges on them.
4. Amortization deductions.
5. The wear and tear of nondurable and inexpensive instruments and inventory.
6. Other financial expenditures.

Total production costs.

7. Services not included in the over-all commodity output (to be deducted).

Total factory costs of gross production.

8. Increase (decrease) of uncompleted production, remaining stamping facilities, models, and instruments produced on the spot.

9. The balance of expenditures involved in the mastery of production of new types of commodities.

10. Nonproductive expenditures.

Full cost of commodities.

The difference between commodities valued at the wholesale prices of the enterprise and the cost determines the amount of profit.

The amount of profit included in the full cost of commodities determines the profitability of the particular product made by the industry. The same calculations can be made in regard to the main administrations and the most important enterprises included in the respective ministries. This will make it possible to determine with still greater precision the direction and scale of price changes.

A revision of prices however implies not only the determination of the general direction and scale of price changes but also the fixing of prices on different products. This work requires the supplementing of the total economic calculations for the industry as a whole with the calculated costs of different products.

The calculation of the cost of a single product has its own peculiarities as compared to the planning of the cost of the entire commodity output of an enterprise or of the industry as a whole.

As mentioned above, the total amount of production costs in the plan of an enterprise or an industry is differentiated

according to the basic factors of the labor process, instruments of labor (amortization), the object of labor (expenditure of raw materials, materials and fuel), and labor itself (wages). The only complex expense items which cannot be reduced to primary economic elements are the miscellaneous expenses for services connected with production management.

The situation is different in regard to the determination of expenditures per unit of production. In this case all the expenditures of an enterprise are by their economic nature classified into 2 groups, (1) expenditures embodied in a particular commodity, and (2) expenditures involved in the production as a whole. This classification of expenditures is determined by the very nature of the organization of the production process in modern industry, and it cannot be abolished by any particular system of calculation. That is why the complex expense items are very important in the calculation of a commodity unit in contradistinction to the expense estimate of the whole enterprise or industry. In this case the amount of expenditures included in the complex items can be determined for every individual product only by an oblique and conditional method.

The peculiar characteristics of the economy of different branches of industry are reflected in the nomenclature of the expense items used in the calculation of commodity costs.

Thus a standard nomenclature of calculation items in the machine-building industry may be described as follows.

1. Raw and basic materials.

2. Auxiliary materials used in the production of certain products.
3. Semimanufactures including the products and services of cooperative enterprises.
4. By-products (the cost of sold by-products deducted from the amount of the above listed material expenditures).
5. Fuel used for technological purposes.
6. Energy used for technological purposes.
7. Wages paid in connection with (basic) production.
8. Auxiliary wages.
9. Deductions for social insurance.
10. Costs of maintaining and servicing the equipment and work benches.
11. Plant shop expenditures.
12. General plant expenditures.
13. Expenditures involved in preparing for and mastering the production of new types of commodities.
14. The wear and tear of stamping instruments and special purpose facilities.
15. Special expenditures.
16. Losses through rejects (in current calculations).

The sum total of all these expense items represents factory costs. That sum plus the nonproductive expenses represents the full cost of commodities.

As regards reimbursement, the expenditures listed in the calculations may be combined into the following groups.

(a) The expenditures which may not only be added to the cost of a certain type of product but also to a given batch or unit of commodities. Among them are the expenditures provided for by the following calculation items: raw and basic materials, auxiliary materials used in the production of certain manufactures, semimanufactures combining the products and services of cooperative enterprises, by-products, fuel used for technological purposes, energy used for technological purposes, wages paid for basic production, special expenditures except those incurred in connection with special experiments made on a selective basis, and losses through production rejects (as applied to intraplant rejects).

(b) The expenditures which may be added to the cost of a certain type of product but not to the cost of a given batch of goods or a commodity unit. Among these are the expenditures provided for in the following calculation items: expenses involved in the preparation and mastery of the production of new types of commodities; the wear and tear of instruments, stamping and special-purpose facilities; and losses through rejects (of finished goods).

(c) The expenditures which cannot be added to the cost of a certain type of product inasmuch as they are related to the

service and administrative end of the production process as a whole. Among them are the expenditures provided for in the following calculation items: additional wages, deductions for social insurance; expenditures involved in the maintenance and servicing of equipment and work benches including the money spent on auxiliary materials not directly connected with the production of commodities; plant shop expenditures, general production expenditures, and nonproductive expenditures.

Obviously there is nothing vague about the method of reimbursements in regard to the first group of expenditures. The situation is somewhat more complicated as far as the second group is concerned. Inasmuch as these expenses cannot be added directly to the cost of a given batch of goods or a commodity unit, a special method must be devised to distribute such expenditures among the various products of a given type of commodity. The contrivance of such a method is not connected with the solution of any complex methodological problems. The basic requirement of such a regulation to be devised by the ministry is that it should insure the even distribution of expenditures per commodities and preclude the possibility of the enterprise's artificial changes of the cost level through the arbitrary defrayal of expenses over a period of time.

As for the third group of expenditures, the method of their distribution among various types of commodities poses one of the most complicated problems of calculating the costs of commodities. The initial step to be taken in the solution of this problem is the consideration of the economic purpose of the particular type of expenditures, that is, to what particular feature of the production process or circulation they are chiefly related. With

this methodological premise in mind, the complex expenditures listed in group 3 can be distributed among different commodities as follows.

(a) In proportion to the basic production wages (additional wages, deductions for social insurance, plant shop expenses, general production expenditures), since the major part of the expenses included in this account is fixed in proportion to the number of production workers or to the payroll fund (the number of engineering and technical workers and junior service personnel, expenditures on the protection of labor, etc).

(b) In proportion to the time the equipment is under exploitation (the cost of maintaining and servicing the equipment and work benches).

(c) In proportion to the volume of goods valued at factory cost (nonproductive expenditures).

The determination of the commodity cost level begins with the drawing up of a calculation report on a commodity. Such calculation however should be considered only as a means to the correct determination of the planned cost.

The calculation of the cost of the same commodities produced by various enterprises helps to define the necessary conditions for progressive production on which all the enterprises of a particular industry should be oriented.

To make the cost calculation of the same commodity produced by different enterprises and the plan calculations comparable with each other so that an analysis of them may produce the right

conclusions, the following 2 conditions should be observed: (1) a full comparability of the commodities, and (2) a similarity of the applied calculation methods.

An elementary preliminary condition to be observed in analyzing calculations is the verification of the comparability of the commodities by the OST [Obshchesoyuznyy standart -- All-Union Standard] or technical conditions under which the commodity is produced, the classification of commodities into complete sets of products, and the range of quality.

Obviously the calculations of the cost of the same machine cannot be comparable if, for example, in one case the cost of the product includes the cost of the motor while in another case such cost is not included or if in one case the calculated cost applies to the average quality and in another to first grade. Wherever such incomparabilities are found, the calculations should be changed to make them comparable. An incomparability of calculations for the same commodity may emerge when different calculation methods are used. For example, if the cost of producing semimanufactures in one plant are distributed according to their respective component items (raw materials, wages, shop, and general shop expenditures), and in another plant these same expenditures appear as a complex item, a comparison of the various component items of these 2 plants becomes practically impossible. For this reason it is extremely important to insure a uniformity in the calculation of commodity costs in all the enterprises of a particular industry.

The wholesale price in industry is formed on the basis of industry costs which reflect the socially necessary conditions

for commodity reproduction in the particular branch of industry. Does this mean that the term industry costs simply means the average actual cost existing in a given industry? Of course not. A wholesale price built on that would have lost its progressive significance since it would have applied to the technical progress of the particular industry and not to its future, to what has already been achieved, and to the past of that industry. That is why in determining prices it is necessary to proceed from an industry cost oriented on progressive technology and progressive production methods already applied by leading enterprises that could be extended to the overwhelming majority of the industry's enterprises.

From this it follows that the determination of prices implies the promotion of progressive tendencies in the economy and technology of every branch of industry and the finding of reserves for reducing the cost of goods. The problem of determining industry costs as a basis for price formation calls for a concrete analysis of expenditures by the enterprises producing a particular type of commodities. First of all it may be found during the calculation of the wholesale price that the distribution of orders for the production of a given type of commodity is irrational and that enterprises with inadequate technical equipment have been enlisted for the production of those commodities. Can the increased expenditures of such enterprises affect the formation of industry's costs? Obviously not, since such expenditures cannot be accepted in principle as socially necessary. They represent losses to society, losses of labor and material resources.

Further, the enterprises producing commodities may include some which have just begun the production of such commodities. Reflected in the production costs of such enterprises will be the temporary characteristics peculiar to the initial period of production, namely (a) higher expenditures of raw materials due to the still inadequate mastery of the technological process, (b) a departure from the estimated labor consuming norms resulting in a relatively high payroll, and (c) great losses through rejects connected with the continued improvement of the technological process.

The increased expenditures of such enterprises are not characteristic of the actually necessary expenditure level. Formed on the basis of such costs, the wholesale price would not reflect the real production conditions of a given type of commodity, would lead to unjustifiably high profits, and act as a brake on the development of production. Thus it seems to us that when permanent prices are determined for a number of years, the higher expenditures of enterprises which first began the production of a certain type of commodities should not be included in the industry cost.

We shall now proceed to a description of the basic calculation items in regard to commodity costs.

"The costs of raw material, basic materials, semimanufactures, and components" are determined chiefly by (a) expenditure norms, (b) applied prices, and (c) the sum total of transportation and procurement expenses.

The composition of component products is determined on the basis of specifications approved during the planning of these

products and conforms to the prescribed standards of producing complete units.

The expenditure of raw materials, basic materials, and semimanufactures is determined on the basis of approved expenditure norms.

The norm of raw material and material expenditures depends in the final analysis on the following 2 factors: on the so-called net weight of the product (the amount of raw material and material contained in the finished product) and on the losses sustained during the processing. From this it follows that an economy of material expenditures can be effected, first, in the reduction of the material content of the products by way of selecting the most economical construction and, second, by the reduction of raw material and material losses in the process of their treatment. The experience of the leading workers in the machine-building industry reveals a variety of methods of solving these problems. Thus the Ural heavy machine-building plant achieved a substantial reduction of material expenditures in the production of rolling mills by selecting the most economical procurement methods. The "Krasnoye Sormovo" plant chose as its best method of economizing material expenditures in shipbuilding the maximum standardization of parts and assembly components which made it possible to organize their large scale serial production with a minimum loss of metal during the treatment of such parts. The Koltsovo locomotive works found it possible to effect large material savings by a rational method of laying out ferrous metals for rolling.

It is obvious that the planning of material expenditure norms should take into account everything new that has been developed by

the creative initiative of the workers in leading enterprises in their struggle to economize on material expenditures. The expenditure norms established for various types of products must strictly conform to the approved technological process. The practice of including additional materials in planning the production of various commodities to cover possible digressions from the technological process, still in use at a number of industrial enterprises, should be abolished as a wrong and harmful practice since, first, it encourages excessive expenditures of raw and other materials not required by the production technology and, second, it legalizes violations of technological discipline.

The possibilities of effecting savings in the cost of raw materials, materials, semimanufactures, and components through the medium of prices consist, first of all, in the most rational use of raw materials, materials, and fuel from the point of view of their price correlation. Every price list shows the additional charges for the delivery of goods, by special demand of the buyer, if such deliveries involve a departure from the normal technical production conditions. At the same time the correlation of prices of interchangeable groups of products is fixed in such a way as to encourage the use of mass-produced goods the output volume of which is large enough to meet the requirements of the national economy and to reduce the demand for deficit goods.

The rational choice of raw materials and materials that would insure the most economical production of goods can thus become an important factor in the matter of saving material expenditures and reducing the production cost of goods. This economy would apply not only to individual enterprises using the particular

type of raw and other materials but also to the entire national economy since it reflects a more efficient utilization of material resources.

To be added to the elements of saving material expenditures are the increased receipts from the sale of waste products. The cost of raw and other materials is computed after the receipts from the sale of waste products have been deducted. It is the task of the industry not only to reduce to the minimum the amount of waste products but also to make the most rational use of the available by-products. The waste products listed in approved price lists are sold at prices fixed on waste products which have been sorted and made into "liquid assets." The other waste products are sold for whatever price they can bring in.

A reduction in the expenditure of raw materials and other important materials used in production can be achieved also by a straight reduction in prices. Since the influence of large scale price changes in the national economy on the cost of industrial production will be discussed separately in connection with the establishment of a balance of values, we shall confine ourselves here to the consideration of so-called current price changes in calculating the cost of various commodities. The issue under consideration is, first of all, the introduction of new types of raw and other materials and components the prices of which are fixed for a certain period of time by agreement of the contracting parties. The reduction of the temporary prices stipulated in the agreement will reduce the expenditures of the enterprises using the newly introduced types of raw materials, materials, and components and will at the same affect the expenses of the enterprises

mastering the production of new commodities encouraging them to reduce the time required to get the new production underway and the losses involved in the process. Therefore the control over the prices charged by the suppliers with a view to their reduction is of great progressive importance for the calculation of plan figures.

From an economic point of view the industry's procurement expenditures may be divided into the following basic expense classifications: (1) net procurement costs, (2) transportation costs, and (3) storage expenses. The net procurement costs represent the purchase cost of raw and other materials, semimanufactures, fuel, etc acquired by enterprises or special procurement (supplying) organizations. These expenditures include the cost of maintaining a procurement (supplying) staff, documentation costs, and the expenses involved in the management of procurement operations. Transportation costs include the expenses involved in the delivery of raw materials, materials, etc to the warehouses of the industrial enterprises. Included in the storage costs are all the expenses required for stockpiling and maintaining the necessary material reserves for the uninterrupted operations of industrial enterprises.

An important source of economy in the industry's expenditures for procuring raw materials, materials, fuel, and components is the reduction in the number of superfluous branches of its supply apparatus. The computation of the procurement expenditures in the plan calculations should be based on the cost of transit goods as the major method of procuring the necessary raw materials, materials, fuel, and components by an enterprise. The acquisition

of raw and other materials from the industry's marketing or supply bases should be taken into account only when the procurement volume is below the fixed transit norms, and in such cases the additional expenditures of only one branch of the marketing or supplying organization are to be reimbursed. Thus the plan calculation must be based on the rational movement of goods which precludes a multiplicity of branches of the industry's marketing and supplying apparatus.

A saving on transportation expenses, an important element in the industry's procurement operations implies first of all a reduction of the hauling distance of raw materials (materials, fuels, etc) between the supplier and consumer. As a basis for the determination of wholesale prices, the plan calculation cannot be adjusted to the actual conditions of transporting raw and other materials which are naturally reflected in the existing shortcomings of the industry's supplying and marketing organization as well as in the freight hauling by various types of transportation. Transportation distance must be determined on the basis of a rational haulage system covering different types of freight. Transportation expenditures in addition to the distance factor can also be determined by the choice of different types of transportation. The transportation rates that come into being as a result of the 1949 reform in wholesale prices and rates and their subsequent reduction provide for a relatively lower cost of freight hauling by river transportation along lines running parallel to railroad lines. Thus the freight rates in use since 1 January 1949 established the following ratio between the hauling rates by rail and river transportation.

<u>Freights</u>	<u>Relation of river hauling rates to railroad rates taken as one unit</u>
Ore	0.81
Coal	0.75
Lumber (transported on vessels)	0.84
Mineral and construction materials	0.56

This means that, all other freight hauling conditions being equal, preference should be given to river transportation.

In the case of short distances it is expedient to make use of truck transportation both from the point of view of the rational utilization of the railroad rolling stock and the saving of the consumers' transportation expenses.

The existing transportation rates, in addition to the basic ton-kilometer freight rate, are in a number of cases prohibitive. The purpose of that is to discourage the freight shippers from using uneconomic transportation lines and to encourage their efficient utilization of different types of transportation. The payment of such prohibitive rates is equivalent to unproductive expenditures. Therefore, the payment of exceptionally high transportation rates should not be included in the calculations of the plan. It seems to us that these unproductive freight hauling expenses should not be charged to the consignees since they indicate a poor organization of freight shipment on the part of the shippers.

The expense items under the headings "fuel for technological purposes" and "power for technological purposes" include the expenditure of every type of fuel and power used for the production

of specific commodities (for example, fuel used for the production of power, electric power used in electrochemical production, etc).

The cost of fuel and power used for servicing the equipment and work benches is chargeable to the respective calculation items. The major factors governing the reductions in those items are the same as in the case of raw and other materials.

The expenditures under the item "basic production wages," chargeable to the unit of production, are determined by the amount of labor time required for the production of a given commodity, the average pay rate per work hour, and additional payments above the basic pay rate (in cases where such payments can be charged to specific commodities).

The amount of labor time required for the production of a certain commodity unit does not apply to every enterprise in equal measure. Reflected in that time are the technical equipment levels of different enterprises, the qualifications of the labor force, the organization of the technological process, management and production services, the growing political awareness and creative activities of the workers, and the development of socialist competition among them. All these factors of labor productivity in socialist industry are embodied in the working time norms (labor consuming commodities). Serving as a basis for the computation of wages in the plan estimates, these norms must be progressive and adjusted to the experience of leading enterprises, shops, and brigades, thereby stimulating all the enterprises of a particular industry to reduce expenditures below the level already achieved.

A number of industries employ the practice of including all the additional wage payments in a single labor fund determined on the basis of the normal technological process to show that digressions from the technology of producing standard quality commodities are allegedly inevitable. Such practice is wrong inasmuch as it lessens the importance of cost planning in the struggle for the introduction of progressive technology into the national economy.

Therefore the determination of labor time required for the production of a commodity unit should not include any additional expenditure of labor time occasioned by violations of technological discipline.

Since the wage rate is related to the qualification level of the labor force engaged in the production of the commodity, it is very important to have the commodity under consideration produced by workers qualified for it. In certain plants of the machine-building industry it is not uncommon to see highly qualified workers used for the production of relatively simple products requiring little skill to produce which results in unjustifiably high wages. Such unnecessary practice should not be included in the plant estimates.

The expense item "additional wages" includes all types of supplemental payments to workers and employees for time not spent in actual production, including leave pay, compensation for unused leave, payment to nursing mothers when not at work, and payment for time spent for other state duties. This expense item includes also all types of premiums and wage bonuses which cannot be chargeable to the production of any particular commodity. These expenses

are charged to the cost of commodities in proportion to the basic production wages.

The expense item "deductions for social insurance" consists of the deductions made in favor of the social insurance organizations. These expenses represent a fixed percentage of the basic and supplemental wages of the production workers and are charged to the cost of commodities in proportion to the basic production wages.

The expenses involved in the maintenance and servicing of equipment and work benches represent expenditures required for the normal functioning of the production facilities. These consist of (1) wages, plus extra charges, of the workers employed in servicing the equipment, (2) cost of materials used in the maintenance of production equipment (lubricants, cleaning materials, fireproof materials, clamps and small spare parts, etc), (3) the cost of current repairs to the production equipment, (4) amortization of production equipment and transportation facilities, (5) wear and tear of inexpensive and nondurable instruments and inventory, and (6) electric power and water for production needs.

The purpose of all these expenses is to insure the uninterrupted operation of the enterprise. The savings achieved in these expenses is chiefly due to the fact that the rate of production expansion is faster than the rate of increasing maintenance costs which leads to a systematic reduction in the cost of a unit of production.

Unlike the expenditures on materials and basic production wages, the expenses involved in keeping the equipment going cannot

be directly chargeable to the produced commodities. They can be distributed only indirectly. The criterion for distributing the expenditures connected with the operation of the equipment among various products is the time the equipment is used for the production of a particular type of product and the fixed costs of maintaining and servicing the equipment per unit of time.

Shop and plant expenditures include the cost of managing the shops, the enterprise, and of servicing their operations as a whole.

The shop expenditures consist of (1) wages and administrative expenses of the shop personnel (engineering and technical workers, employees, junior service personnel, and auxiliary workers), (2) amortization, current repair, and maintenance of the major shop equipment, (3) wear and tear of the inexpensive and non-durable shop inventory, (4) fuel, power and water for heating, lighting and other economic needs, (5) the cost of maintaining shop laboratories, (6) the cost of protection of labor, special work clothes, and food, (7) shop expenditures in connection with rationalization and invention, and (8) miscellaneous expenses.

The general production (plant-wide) expenditures consist of (1) wages and administrative expenses of the plant management, (2) amortization, maintenance, and current repairs of the basic plant facilities, (3) maintenance of plant warehouses, (4) the cost of labor protection on a plant-wide scale, (5) the expenditures involved in the recruitment and training of the labor force chargeable to production costs, (6) the expenses of the plant as a whole connected with rationalization, inventions and scientific research, (7) the maintenance of designing bureaus, (8) interest on credits, and (9) miscellaneous expenses.

The major part of the plant's administrative and management expenses consists of shop and plant-wide expenses. All possible savings that can be made on these expenses are of great progressive importance for the national economy because, in addition to saving considerable amounts of money, they are conducive to bringing order into the administrative apparatus of the enterprises and liquidating all sorts of excesses.

The following are the major saving factors in regard to shop and plant-wide expenditures.

1. An increase in the volume of production which (up to a certain extent) can be achieved without a corresponding increase in shop and plant-wide expenditures. For example the total payroll and administrative expenses of the plant and shop management, amortization, repair, and maintenance of the basic facilities remain the same or show an insignificant increase while the scale of production is stepped up. In this sense it is the accepted practice to charge the shop and plant expenses to disproportional expenditures, that is, expenditures that do not increase in direct proportion to the growing volume of production.
2. Streamlining the administrative apparatus and reducing its cost is the second source for reducing shop and plant expenditures. In this respect it is very important to eliminate the excesses from the administrative apparatus particularly the excessive subdivision of the production sectors and shops which tend to inflate expenditures and complicate the management of production.
3. The liquidation of unproductive expenses, particularly fines for failure to live up to agreements between suppliers and

buyers, increased expenses involved in the use of loans as a result of the failure to keep the commitments to the state bank, demurrage charges for railroad cars and ships, losses sustained through a shortage or spoilage of goods, materials, etc.

The costs of preparing and mastering the production of new types of commodities consist of expenses involved in the planning and designing of new products, the development of the technological process for its production, the planning and designing of special instruments, the planning and establishing of expenditure norms, replanning, rearranging the equipment, the testing of materials, semimanufactures, instruments and facilities for the production of the new commodity, as well as the preparation of an experimental model of it.

As mentioned above, these expenses are defrayed over a period of up to 2 years, beginning with the changeover to serial or mass production of the new commodities, by charging them proportionally to the respective type of commodity.

The determination of expenditures involved in the preparation and mastery of the production of new types of commodities, chargeable to the unit of production, should take into account the possible essential savings on this expense item through the rational utilization of the already available experience in the production of similar commodities at other enterprises. Since the cost of preparing and mastering the production of new types of goods, chargeable to the unit of production, are inversely proportional to the total quantity of goods to be produced while these expenditures are defrayed, it is very important to determine precisely the volume of goods to be produced during that period.

This is especially important in calculating the cost of goods undergoing rapid modernization. An inaccurate estimate of the production volume of the new commodities in the first 2 years may in one case produce higher profits and in another result in unjustified losses due to the failure to deduct the cost of preparing and mastering the production of new types of goods.

The expense item "wear and tear of instruments, stamping facilities, models, and special-purpose facilities" reflects the defrayal of the cost of instruments especially designed for use in the production of certain types of goods. The defrayal of the depreciation costs of instruments, stamping facilities, models, and special purpose facilities is usually entered in a special appropriation account where the cost of selecting the instruments and their durability is taken into account.

The possible savings in this expense item consist, first, in the reduction of the cost of making the instruments, stamping facilities, models and other facilities, second, in improving their quality which will also lengthen their time of service, and third, in the utilization of the remaining instrument facilities which had been designed earlier for the production of goods now discontinued.

The "special expenses" item applying to serial and mass production shows expenditures involved in the production of goods by special order (the cost of documentation, models, stamping, and other facilities, as well as the cost of assembling and testing). This expense item includes also the costs of special tests in serial and mass production.

Since the costs of special tests account for a considerable part of the production costs, they must be strictly apportioned in agreement with the buyers' apparatus which receives and checks the quality of the finished products. Excluded from the plan estimates should be the costs involved in the tests made by the suppliers above the established norms as a result of the inadequate control of the quality during the production process.

The nonproductive expenditures include the cost of marketing the goods by the enterprise. The amount of such costs depends on the conditions of the delivery of the goods. Such expenditures are smallest in the industries selling their products at the place of production (for example, the brick plants which sell their products at the plant warehouse). These expenses are highest in enterprises which must deliver their products to the consumer. The major sources for saving on nonproductive expenditures are (a) a reduction in freight hauling costs to be achieved by more rational movement of goods between the supplier and consumer, (b) a saving in the cost of loading and unloading the goods by mechanizing loading and unloading operations, (c) a saving in the cost of motor vehicle transportation by eliminating idle time and a fuller utilization of transportation facilities, and (d) a reduction in storage costs by shipping the finished products on time.

Planning the Wholesale Price Level and Value Relations

From the preceding description of the structure of wholesale prices on the means of production it follows that they are determined in the final analysis by cost and profit. Consequently when proceeding from production cost to the wholesale price the formation of profits should be taken into account.

Unlike the mass consumption goods, the overwhelming part of the means of production is used within the limits of the state economy. In this case there is no such thing as an exchange of goods. Production facilities are not removable and their ownership is not transferable. For this reason the wholesale prices of the means of production are not required to reimburse society's expenses connected with their production. The amount of financial accumulations achieved through the wholesale prices on the means of production is limited to the ~~minimum~~ profit necessary to maintain the normal operations of the industry on a self-sustaining basis.

In Chapter II of this book we pointed out the conditions governing the amount of profit in branches of industry. It was noted also that the normal development of the industry on a self-sustaining basis could be insured by its own sources of accumulation that would make possible an increment of the turnover funds at the enterprises, a partial financing of capital work, and the formation of turnover funds at the newly commissioned enterprises. The calculations made under the conditions existing in 1950 showed that with a profit margin of 1.5-3% it is possible to achieve an increment of the turnover funds in the basic branches of industry (including also the creation of turnover funds at the new enterprises).

Does this mean then that after the computation of the profit percentage, which may be considered as a normal average for the given industry, the rest of the job of forming wholesale prices could be reduced to the mechanical device of adding this profit to the previously fixed production costs? Such a notion would be

greatly oversimplified. In actual fact the structure of wholesale prices is a great deal more complicated. The prices for different types of commodities do not represent any isolated entities. In their sum total they comprise a unified system of prices reflecting in monetary terms all the interplay and connections among the various branches of the national economy in the process of expanded socialist reproduction. That is why it is impossible to arrive at a correct solution of the problem affecting the price of a single commodity without regard to the connection between such a price and the entire price system.

First of all in the process of expanded reproduction certain branches of industry may appear as consecutive phases of the same production process, for example, coal mining, pig iron smelting, steel smelting, and the production of rolled metal and other metals. The prices on the commodities produced by every one of these processes should cover the costs and contain a minimum profit. This means that the price of pig iron has a certain relation to the price of steel, the price of steel to the price of rolled metal, and the price of rolled metal to the price of other metals. To ignore such relations, which actually exist in metallurgical production, and to engage in the mechanical forming of prices on different types of commodities based on costs but without regard to the prevailing prices on other types of commodities would be equivalent to a deliberate distortion of prices. It might lead, for example, to a situation where the price of pig iron equals the price of steel ingots while the price of steel ingots is the same as the price of rails. The prices of mineral fertilizers should have a definite relation to the prices of agricultural

products. The increase in the income resulting from the use of fertilizers must exceed the expenditures for those purposes, etc.

When determining wholesale prices, however, it is also necessary to take into account more complicated forms of relations. The point at issue is the value relations among various types of commodities which can be substituted for each other in the process of consumption. The possibility of a limited choice of products thus made possible for the consumer presents an urgent problem of utilizing the prices in the interests of the economic policy of the Soviet state.

Let us examine the methods by which wholesale prices can be used to stimulate the rational utilization of material resources.

1. The correlation of the prices of nonferrous metals and their ferrous metal substitutes. In fixing prices on nonferrous metals account is taken of the necessity to encourage their replacement by ferrous metals or alloys with a lower content of deficit nonferrous metals. To that end, the profitability of nonferrous metals is deliberately made higher than that of ferrous metals.

2. The correlation of prices on interchangeable types of ferrous metal. Various brands of ferrous metal can be used for the same production or construction purposes. For example, run-of-the-mill rolled metal and low-alloy steel can be used for the production of metal objects, while sheet steel, pipes, etc can be used for producing ball bearings. In view of the possible simultaneous use of different types and brands of ferrous metal for identical purposes, it is necessary to implement a definite

economic policy, in the process of price formation, designed to encourage the use of some types and brands of ferrous metal and restrict the use of others. For example the price of low-alloy steel, though fixed at a higher figure than ordinary steel, still encourages the use of the tougher low-alloy steel in the national economy.

3. The correlation of prices on imported and local varieties of fuel. The reduction of coal hauling distances is a matter of great importance for the national economy since a considerable part of the fuel is used up by the locomotives over the long distance runs. Hence it is necessary to encourage in every way the use of local fuel. A serious obstacle in the solution of this problem is the relatively high cost of local coal (in terms of ideal fuel) due to its high ash content. Therefore it becomes necessary in a number of cases to fix the wholesale price on local coal below cost and compensate the coal industry for its losses by raising the price of coal to be shipped over long distances. The same purpose is served by the establishment of preferential freight rates for local fuel hauled within the area of its rational consumption.

4. The correlation of prices on solid, liquid, and gas fuel. The fixing of prices on solid and liquid fuel at cost level without regard to the value relations among the various types of fuel would encourage the use of high-grade fuel oil which is relatively easier to produce than coal. Since this would contradict the interests of the state which call for the sparing use of fuel oil, a turnover tax was added to the wholesale price of oil products raising the prices of oil and oil products in comparison with other types of fuel.

With a view to encouraging the rational utilization of high-caloric natural gas, on the other hand, the prices on gas are adjusted to the prices of liquid fuel.

5. The correlation of prices on imported and local types of lumber products. Unlike coal, the rational utilization of wood resources implies a strong encouragement of lumber product procurements in relatively remote surplus lumber areas and the simultaneous restrictions on the local procurements of wood in lumber consuming areas. The solution of this problem requires that the cost of wood procured in the surplus lumber areas, including its delivery to the lumber consuming areas, not exceed the cost of locally procured wood. The difference in the higher price of local wood as compared to its cost plus normal profit is credited to the state budget both in the form of fine and as profit deduction.

6. The correlation of prices on various types of construction materials. One of the important problems to be solved when fixing wholesale prices is the establishment of a proper correlation among various types of construction materials, including brick and wood, roofing metal and tile, and concrete and iron structures. The mechanical reduction of each of these types of construction materials to the cost of production without regard to their value correlations may bring about a situation where prices contradict the interests of rational utilization of material resources. For example it may be found more advantageous to use construction steel where ferroconcrete would be expedient, roofing metal instead of tile, commercial lumber in place of brick, etc.

7. The correlation of prices on raw materials and production wastes. A number of industries make use of production wastes

and scrap in addition to first grade raw materials. Thus in the production of steel the furnace charge contains both first grade pig iron and scrap pig iron. Naturally there must be a definite relation between the prices of first grade raw material and those of production wastes and scrap so that the most rational utilization of raw material resources could be insured. The prices of production wastes turned over for industrial utilization to the local industry by the enterprises of the union and union-republican industries are fixed in the neighborhood of 70% of the cost of first grade raw material.

8. The correlation of prices on various types of machines and mechanisms. A definite correlation should be maintained also among the prices on various types of machines and mechanisms. For example, there are trucks of 1.5, 3, 5, and 7 t. What should be the correlation of prices of such trucks of various capacities? If the prices of trucks were to be graduated in proportion to their capacity many consumers would find it to their advantage to acquire small capacity trucks since the use of large trucks would require a large volume of work which is not always available. It would also require a large initial investment. Such a price structure would be wrong from the point of view of production economy as the cost of producing trucks does not increase in direct proportion to their capacity. Consequently the prices of trucks must be fixed in such a way as to make them cheaper with increasing tonnage capacity.

It is quite important to determine the right prices on new machines that are in production for the first time. It is not uncommon to find that ministries fix temporary prices on new machines,

using as a criterion their production costs in the initial period and taking no account of the relation of such prices to those of similar old machines. As a result the cost of the new types of machines to the consumers is greater than the savings involved in replacing the old machinery. Such a narrow commercial approach to the determination of prices on new machines hinders the introduction of new machinery into the national economy and impedes the reduction in their production costs by artificially limiting the scope of such production. The prices on new machines must serve to stimulate their rapid introduction into the national economy.

9. The correlation of prices on new machines and repairs to the existing machine pool. The prices for repairs to the existing machine pool and spare parts for them must be fixed in strict relation to the existing prices on new machines. Only under such conditions is it possible to encourage savings and repairs to the existing machine pool. The ratio between the price of a new machine and the price of a set of spare parts and components for it, accepted in the practice of price formation, is 1:1. This ratio means that the price of a set of parts comprising the new machine must not exceed the price of a finished machine. This makes it more advantageous for an enterprise to keep replacing parts and repairing the machine until it is completely worn out.

So far we have dealt with the proper correlations of prices on various types of industrial commodities in regard to the determination of wholesale prices. We shall now dwell on a different aspect of the price formation problem, the use of prices to stimulate the growth of production and improve the quality of commodities.

A properly constructed price system should insure (1) the uniformity of prices for the same commodities since only in that way can the price perform the function of a uniform measure of production costs and output volume, (2) the profitable operations of the major enterprises of every industry as the most important condition for self-sustaining operations, and (3) the planning of profitable operations in regard to various types of commodities produced by the enterprises of a given industry taking into account the improvement of the assortment and quality of the commodities.

Here we come across one of the most complicated problems of price formation, namely how to insure the uniformity of wholesale prices for the same commodities and the profitable operations of the enterprises of every industry under conditions of the existing disparities in the production costs of different enterprises.

To begin with, the term "price uniformity" should be elucidated. Does this uniform price principle mean an obligatory fixing of identical prices for every district of the Soviet Union without regard to the peculiarities in the production and realization of commodities? Does this mean, for example, that the price of wood is to be the same, say, in the Donbas, where there is no lumber industry, and in the Karelo-Finnish SSR, which is one of the major lumber producing areas?

Such a "uniformity" of prices would have meant that prices became independent of production costs. Under such a price system it would be equally expedient, for example, to locate the woodworking enterprises in lumber producing and lumberless areas. It is obvious that a uniformity of prices does not necessarily preclude,

it even implies, the establishment of differential zonal prices on commodities in cases where their production and transportation in different areas are essentially different from each other.

The establishment of zonal prices solves the problem of price uniformity for all enterprises located in given production areas and also makes it possible to take into account district (zonal) differences in the production cost level. The differences between enterprises in regard to the production cost of the same commodities however cannot be reduced to zonal differences alone. In a number of cases the enterprises located in the same economic area show different production costs of the same commodities. The reasons for such essential differences in the production costs of the same commodities by different enterprises may be reduced to the following.

(1) The influence of natural and transportation factors, including the distribution of enterprises according to the raw material and fuel sources as well as consumption areas, the capacity of the raw material and fuel-power base and the corresponding scale of production, and the quality of raw material and fuel which tends to create a kind of "monopolistic" condition favoring a higher labor productivity and lower production costs by some enterprises.

(2) The differences in the technical equipment of various enterprises.

(3) The differences among enterprises in regard to the mastery (stage) of the production of new types of commodities.

(4) The differences in raw material costs.

(5) The shortcomings in planning and organizing production, including (a) shortcomings in planning the production program of enterprises which may be explained by the fact that in certain cases the ministries distribute the orders among enterprises without taking into account their specialization and technical training, (b) shortcomings in the organization of interplant co-operation among the supplier plants, and (c) shortcomings in the management of certain enterprises manifested in the fact that enterprises often located and operating under similar conditions show different production costs per unit of the same commodities.

The question arises how would it be possible to account for these differences in the production costs of different enterprises for the purpose of price formation or in other words how would it be possible under conditions of uniform prices for the same commodities to eliminate the sharp fluctuations of profitability in regard to various enterprises and groups of commodities within the limits of each given industry?

In the first place, since wholesale prices are used as a criteria of socially necessary costs of producing commodities, such prices cannot include increased expenses occasioned by the shortcomings in the management of certain enterprises. These increased expenses cannot be used in the formation of the industry's plan costs on the basis of which wholesale prices are determined. Enterprises permitting such superfluous expenses and thus incurring a loss for the socialist society will naturally be operating at a loss.

Nor should wholesale prices be adjusted to increased costs on the part of individual enterprises resulting from an inadequate

rationalization of planning their production program and from the ministries' distribution of orders to enterprises without due regard for their specialization.

An analogical solution apparently should be applied also to the problem of increased expenditures by certain enterprises occasioned in some cases by the poor organization of interplant cooperation which leads to higher prices on semimanufactures and components payable by enterprises producing finished goods. Such increased costs should not be reflected in the wholesale prices.

We thus arrive at the conclusion that wholesale price determination cannot take into account the differences in commodity costs brought about by shortcomings in the planning and organizing of production. A different solution however should be applied to the problem of price formation which is affected by such factors as natural and transportation conditions, differences in the technical equipment of enterprises, in the mastery of the production of new types of commodities, and in the prices of raw materials. These factors do not depend entirely on the enterprise or industry and therefore cannot be ignored in the establishment of prices without substantially violating the interests of self-sustaining operations.

In cases where the difference between the commodity costs of certain enterprises and the industry's costs is relatively small the profitable operations of the major enterprises may be secured by slightly increasing the average profitability level of the entire industry. For example it was found during the drafting of wholesale price and rate estimates in effect since 1 January 1949 that a 5-8% increase in profit could insure the profitable operation of all the electric power systems.

In cases of considerable differences between the commodity costs of certain enterprises and the industry costs it often becomes necessary to take measures designed to (a) equalize the cost of production for various enterprises where uniform prices are in force, and (b) redistribute the accumulated reserves within the industry.

Thus the differences in the cost of commodities brought about by different costs of raw material for different enterprises may occur in cases when (a) long distance raw material hauling and therefore transportation expenditures are not the same for different enterprises, or (b) a different system of calculating raw material costs, depending on whether such raw material is acquired from the outside or produced on the plant premises, is in use.

Operating in favor of equalizing transportation costs for all enterprises located in the same production area is the system of wholesale prices which implies FOB delivery station. The use of that system in industries where transportation costs account for a considerable part of the commodity costs may eliminate the wide gaps between the profitable operations of various enterprises.

As for the differences in commodity costs arising from different evaluations of materials and semimanufactures produced on the premises or brought in from the outside, that problem must be solved by adopting a system of evaluating materials and semimanufactures according to uniform wholesale prices regardless of their source.

It should be said that a number of industries still show shortcomings in their calculations of commodity costs.

Thus for example the expenditures on ferrous metals by enterprises of the machine-building industry that have no metallurgical shops are determined by the uniform wholesale prices. The plants equipped with metallurgical shops on the other hand include the same metals in the calculation of plant costs. Since the scale and degree of specialization in the production of ferrous metals by the metallurgical shops of the machine-building plants are essentially different from the scale and degree of specialization at the ferrous metallurgical plants, the cost of commodities at these shops is as a rule higher than the wholesale prices provided for in the uniform price list for ferrous metals.

As a result the production cost of the machine-building plants equipped with metallurgical shops tends to go up precisely because of its own ferrous metal production. This puts them at a disadvantage in comparison with other machine-building enterprises, distorts the financial results of their economic operations, and weakens the stimulus for the development of "small scale metallurgy."

Apparently the time has now come to introduce into the industry a uniform method of calculating the costs of major types of raw material and semimanufactures which are covered by the uniform prices approved by the government of the USSR. These types of raw materials and semimanufactures must be calculated by all enterprises according to the uniform state prices.

When determining prices in the machine-building industry, it is necessary to take into account the differences in the cost of the same commodities at different enterprises mastering the production of new types of commodities. The production of new types

of commodities in these industries is usually begun by one or 2 plants (the so-called head plants) which establish the necessary constructive and technological treatment of the new product and turn it over for continued production to the duplicating plants. Since the cost of introducing new types of production and the depreciation of special facilities and instruments are charged in equal proportion to the commodities produced over a definite period of time, the cost of commodity production at certain enterprises depends largely on the extent to which any particular enterprise has mastered the production of its new commodity and on the scale of its serial production. The head plant engaged in serial production over a period exceeding 2 years will no longer include in its cost estimates the expenses involved in the production of new commodities. Its expenditures on special facilities and instruments will amount to a relatively small sum per unit of production since the initial expenditures for these purposes have already been reimbursed and the current expenses required for the renewal of special instruments are charged to a considerably larger quantity of commodities. The situation is different in the case of a duplicating plant which has just begun to produce a new type of commodity. Here the increased cost connected with the mastery of the new production is charged to a small quantity of produced goods and this causes a sharp rise in the cost of a commodity unit.

Such differences in the cost of commodities to different enterprises are inevitable since they are determined by the modern level of technological development, particularly by the existing conditions under which new commodities are produced. As objectively inevitable costs of social production, they should be reimbursed. The practice of price formation has revealed the following 2 forms

of reimbursing the differentiated costs of enterprises involved in the mastery of producing new types of commodities.

First, in a limited number of cases prices are temporarily increased (for the period of assimilating new production) for certain groups of enterprises beginning the production of new commodities for the first time. These exceptions are permitted in cases when (a) the commodities under consideration are finished products not subject to further processing or finishing operations, (b) the products are sent to the same buyer, and (c) the payment for such products is made under a centralized system for the account of the state budget. Such practice is used in certain branches of the machine-building industry where a temporary increase in the wholesale prices is established for the plant producing new types of commodities for the first time.

The second method consists in the fact that the uniform prices established for the same commodities insure the reimbursement through the centralized system of the enterprises' expenditures involved in the production of new types of commodities. Thus the system established in 1945 provides that whenever a new plant begins the production of goods previously assimilated by a different enterprise the wholesale price fixed for the new plant is to be the same as for the enterprise that initiated the production of the new commodity. Under this setup the difference between the plan cost of the commodity at the new enterprise plus a 3% profit and a uniform wholesale price should be reimbursed by a special financing from the state budget. That method was based on the existing system of government subsidies to the heavy industry and therefore no longer applies to the new conditions of industrial operations. However the very principle of centralized

reimbursement of additional expenditures by enterprises involved in the mastery of new types of production retains its validity to this day.

We shall now follow up the above outline with a consideration of the effect on commodity production produced by the difference in the technical equipment of various enterprises as well as by the natural and transportation conditions of production. This problem is of particular importance in the modern practice of price formation. And the fact that it is the last on the list to be discussed by us is due solely to considerations of methodology.

It should be made clear at the outset that when we speak of taking into consideration the technical level of certain groups of enterprises in connection with price formation we do not necessarily mean the reimbursement of the excessively high expenditures incurred by enterprises whose technical development is known to be behind the normal production conditions existing in that particular industry. Such expenditures cannot be reimbursed by wholesale prices which are adjusted to the socially necessary production conditions. What we have in mind is that in certain industries where the uniform wholesale prices are based on the average cost of production of the particular industry there are a number of well equipped modern plants operating at a loss. Such a situation, for example, exists in the ferrous metallurgical industry where the average production cost of the major types of commodities is decisively affected by several enterprises which are unique in their production scale and technical standards (the Kuznetsk metallurgical combine, the Magnitogorsk metallurgical combine, etc). The exceptionally large production scale and lower costs of raw materials and fuel, partially due to natural factors (huge reserves of high

grade raw material and fuel), make it possible for these enterprises to keep production costs down to a particularly low level. This tends to reduce the industry's production costs below the cost level maintained by other enterprises which, though technically well equipped, operate under less favorable conditions in regard to the scale of production.

In cases where a sharp reduction in the cost of production is made possible by particularly favorable natural and transportation conditions directly or indirectly affecting some of the enterprises, 2 possible methods of price formation can be employed.

1. The wholesale price is determined on the basis of industry cost which does not take into account the enterprises operating under exceptionally favorable production conditions. Consequently the industry's production cost in this case reflects not the average but less favorable than the average production conditions. The industry cost, which serves as a basis for the establishment of a uniform price, exceeds the actual cost of production. Herein lies the material possibility for deriving additional (differential) profit by enterprises operating under more favorable conditions. This differential profit is credited to the state budget as rent payments.

An identical method of price formation has been adopted in the lumber procurement industry. The peculiar characteristic of this industry is, among other things, that wood procurements are carried out by procurement organizations subordinated to various ministries, central, and local institutions. There is no unified centralized marketing organization in the industry. This precludes the possibility of reimbursing the expenditures of all the lumber

procurement organizations through a centralized redistribution of surpluses.

A system of exacting per-tree payment for wood products priced according to the natural and transportation conditions of their production has been in force in the lumber production industry since 1949. This per-tree payment is one of the elements included in the formation of wholesale prices on wood.

The per-tree payments made by the timber cutters are differentiated according to the exploitation zones and the types of lumber as well as transportation distance.

It should be pointed out that such a method of price fixing has not been applied on a large scale in the extracting industry of the USSR. This is due to considerations of price reduction on the output of the mining branches of the heavy industry which supply the major types of industrial raw material. The possibilities for centralized redistribution of accumulations (the concentration of the management of most of the industry's branches in a single ministry, and the disposal of the industry's entire output through a single centralized marketing organization) existing in most of the extracting branches of the heavy industry create conditions under which it is possible to reimburse the expenditures of the extracting industry enterprises without resorting to price increases.

2. The wholesale price is determined on the basis of the average industry cost of commodities for all the enterprises of a given industry. In this case even the enterprises whose costs equal that of the industry cost will be operating at a loss since the

industry's production cost is computed without regard to the enterprises operating under especially favorable production conditions. Here it is expedient to use the method of so-called account-settlement prices in the interests of the redistribution of accumulations within the respective industries. Under this method special differential prices are established for settling the accounts between the industry's marketing organizations and different groups of enterprises in addition to the industry's uniform wholesale prices at which goods are sold to the consumers. Typical in this respect is the price structure in the oil industry. Differential prices for various trusts were established in this industry within the limits of the average prices existing in the different branches of industry. The main oil products marketing organization sells the products to the consumers at zonal wholesale prices, FOB nearest delivery station, but settles its accounts with the oil industry enterprises at trust prices. The use of account-settlement prices cannot be recommended as a universal measure in view of the following considerations.

Unlike the uniform (including zonal) wholesale prices based on the production cost of the entire industry or a given economic area and therefore applying equally to suppliers and consumers, the account-settlement prices are based on the unit cost at various enterprises and can therefore be different for different suppliers in the same production area. This characteristic remains in force even when the combination of a number of enterprises with approximately similar production costs makes possible the establishment of group account-settlement prices.

Thus the introduction of settlement prices means the emergence of a unitary, individual measure in addition to a unified social measure which finds its reflection in the state wholesale prices of the industry. Under such conditions the results of an enterprise's operations are measured not by the social measure but by the unitary one. This may tend to weaken the planning and regulatory role of wholesale prices.

It follows from this that the use of settlement prices can be justified only in those cases where the gap between the profitable production of the same commodities by different enterprises cannot be bridged by equalizing production costs or by any other means of regulating the existing wholesale prices in industry. Such a situation may arise particularly in the extracting industry where production cost is conditioned by natural factors. In that case the existing wholesale prices of the enterprises should serve as a basis for settlement prices. This means that (a) the use of so-called settlement prices is meant as an increase or deduction from the existing wholesale prices of the enterprises, (b) these increases (deductions) must be sufficiently stable and should be changed as a rule with the changing base on which they are built, that is, the wholesale prices of the enterprises, (c) the increases (deductions) are to be applied to an entire group of enterprises with similar planned production costs, and (d) the increases (deductions) must not be allowed to distort the value correlations provided for by the existing wholesale prices.

The use of wholesale prices to stimulate the growth of production and improve the quality of goods implies a price structure under which every enterprise of the respective industry would be

equally interested in fulfilling the plan in regard to the entire range of commodities. And this means that it is necessary to eliminate the wide gaps between the profitable production of various groups of commodities specified in the plan. It is expedient at the same time to make more profitable the production of certain types of commodities involving labor-consuming operations or requiring considerable initial expenditures for their production. It is also expedient, whenever necessary, to establish less profitable or even unprofitable prices on obsolescent and uneconomic types of commodities which should be eliminated from production and replaced by more advanced types of products.

Graduating the prices according to the quality of the same type of products should be done in such a way as to encourage (by increasing profits) the production of the high grade and restrict the output of the low grade product.

Price Coordination Among Various Industries, the Balance of Price Changes

So far our discussion of production cost as a basis for planning wholesale prices has been limited to the consideration of only 2 cost-determining factors which are directly dependent on the efficient work of a given industry. We must now include one more factor which substantially affects the wholesale price level and that is the mutual influence of the changing prices of production means on the cost of commodities in the national economy.

There is an unbreakable tie among the branches of the national economy, the use by some branches of the products of the others. Therefore a change in the prices of production implements

made by some industries produces a change in the production costs of other industries. This is an important additional element of commodity price reduction and therefore of wholesale price reduction. The significance of this element may be judged by the fact that, when the wholesale prices of heavy industry commodities were reduced on 1 January 1950 for each 100-ruble reduction achieved in every branch of the industry by cutting production costs, there was an additional 115-ruble reduction in the production costs of other industries using the mentioned cheaper commodities.

The effect of cost reductions is all the greater the larger the reduction in the wholesale prices in the raw material, fuel, and power industries whose production costs are repeatedly reimbursed in the expenditures of most of the branches of the national economy. Therefore one of the important features in determining the extent of wholesale price reductions is the effect of the above mutual reductions. Any change in wholesale prices in the national economy is reflected in the financial situation of its various branches and in their financial relations with the state budget. For example if the wholesale prices of any one industry are reduced it means (a) a reduction in the receipts of that industry and (b) a simultaneous reduction in the costs and increase in the profits in the other industries using the reduced-price commodity. This is accompanied by a change in the mutual relations between certain branches of the national economy and the budget in regard to profit deductions and the increment of turnover funds. And inasmuch as wholesale price changes do not affect retail prices, the revenue and expenditures of the state budget are not subjected to any changes. The only change that occurs is in the distribution of the accumulated funds among the branches of the economy.

To evaluate the effect of wholesale price changes on the various branches of the national economy and their mutual relations with the state budget, a chess board balance of price changes is established whenever a substantial price change is introduced. That balance consists of (1) the balance of changes in the receipts and expenditures of the national economy and (2) the balance of changes in the mutual relations between the state budget and the national economy.

The balance of receipts and expenditures of the national economy reflects the change in the receipts occasioned by the changes in the prices of commodities of various industries and the distribution of that change among the consumers. Thus in the case of a wholesale price reduction that balance will be expressed in the following way.

Industries Where Wholesale Prices Were Reduced	Total Amount of Wholesale Price Reduction	Distribution of Savings, Resulting from Price Reductions, Among the Consumers
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As may be seen from above scheme, the calculation of the mutual effect of price changes includes (a) the determination of the total amount involved in the price changes (the change in receipts) for every industry and (b) the distribution of that amount among the individual consumers.

The difficulty of making such calculations consists in the fact that they cannot be treated as a single operation but require a number of consecutive calculations since the change in the prices of one industry produces a corresponding change in the prices of other related industries which, in turn, affects the first price changing industry. For example a reduction in the

wholesale price of coal makes possible a reduction in the cost of electric power but the latter reduction in turn produces an additional reduction in the price of coal, and an additional reduction in the price of coal in turn leads to an additional reduction in the cost of electric power.

This complicated mutual influence between different industries calls for a certain sequence in the planning of possible price changes (with a view to all-round price reductions). Practice has prompted the following sequence.

To begin with, the extent of possible price changes for various industries should be determined without taking into account the mutual effect of price reductions. This is followed up by using the method of proximate variants to determine the extent of change in the prices of the output of the raw material, fuel, and power industries (lumber, fuel, electric power, metals, paper, chemicals, rubber, and building materials) bearing in mind the mutual effect of price reductions on these industries. The same method is then used to fix the extent of price changes in regard to the commodities produced by the allied and assembling branches servicing the machine-building and metal-processing industries (ball bearings, electric light fixtures, motors, diesel motors, chassis, etc). Finally, when the effect of cheaper raw materials and component products is taken into account the prices of the commodities of the machine-building and other processing industries can be determined.

To arrive at a precise and reliable estimate of the effect of all-round price reductions it is necessary to pay particular attention to the exact distribution of the lower priced commodities

among the various consumers. What is important here is not only an equivalence of the total loss in receipts by the suppliers and the total gain for the consumers deriving from cheaper prices. This is an elementary requirement which if neglected could produce a loss for the state budget. It is also necessary that the sum total of the price reductions be distributed evenly among the consumers. Failure to do that would make substantial violations of the established economic and financial plans inevitable. Some industries will overfulfill the plan in regard to costs and profits while others will fulfill the same plans for reasons beyond their control. But this is not the whole case. An incorrect distribution of price reductions may lead to errors in the fixing of prices for the commodities of different industries, excessively high prices in some cases and below-cost prices in others.

The existing practice in the sphere of price calculations shows that all the errors committed in this respect are due to the lack of a discriminating approach to the various consumers as far as the extent of price reduction is concerned. For reasons of technical convenience the industrial marketing organizations, which keep account of the lower wholesale prices of the products they sell, frequently compute the price reductions by applying the same average group coefficient to all consumers at a time when the actual price reductions for various types of commodities included in the same group of products are usually substantially different. Thus to avoid mistakes in the calculations it is necessary to base them not on the average price reduction for all consumers but on the average fixed price fixed for every individual consumer, bearing in mind the range of products used by him.

Price reduction affects every field of the industry's activity and all types of its expenditures, including production costs, capital investment, cost of capital repairs, the expenditures of the nonindustrial branches of the economy and the cost of the administrative and management apparatus. Therefore the fixed total of price reductions allocated to each ministry should be distributed according to the types of activity. This distribution is usually presented as follows: (a) major activity, including production costs, (b) capital work, (c) capital repairs, and (d) other branches of the economy.

To determine the cost of commodities however we must not restrict ourselves to the mere distribution of expenditures according to the type of activities. At this stage of the calculations we are able to define the total cost of production (taking into account all price reductions). But this is still not enough to determine the price level. We must now proceed from the cost of production to the cost of commodities.

We have seen that the effect of the following factors must be taken into account with a view to determining the full cost of the entire commodity output: costs of services not included in the gross commodity output; the change in the volume of uncompleted production in terms of cost, as well as the remnants of semimanufactures, stamping facilities, models and instruments produced on the premises; the change in future expenditures; and non-production expenditures. Now when the issue under consideration is the determination of the full cost of the entire commodity output the major problem is the distribution of the total amount of price reductions according to the mentioned expenditure elements.

To elucidate the point we shall cite the following approximate scheme.

	<u>At the Old Prices</u>	<u>Total of Price Re- ductions</u>	<u>At the New Prices</u>
Production costs	10,000	1,500	8,500
including the following costs:			
(a) services not included in gross production (deducted)	200		
(b) increase in the accretion of uncompleted production (deducted)	500		
(c) future expenditures: costs (deducted), paying off expenditures (added)	150 100		
(d) nonproduction expenditures (added)	<u>100</u>		
Full cost of commodity output	9,350		

The following changes should be made in the plans in accordance with the figures on the range of changes in the receipts and expenditures of the national economy.

(a) The suppliers of reduced-price commodities must reduce the volume of commodity output expressed in wholesale prices and make a corresponding reduction in the amount of profit or turnover tax.

(b) The consumers of reduced-price commodities will cut their production costs, the costs of capital repairs and capital construction, and will reduce their fixed amounts of turnover funds. This should produce a corresponding increase in their profits or turnover tax.

All these changes should be reflected in the mutual relations between the state budget and the various branches of economy: a reduction in the budget revenue from the industries where prices have been reduced and a reduction of expenditures incurred by economic and budgetary organizations using a given commodity.

The changes in the mutual relations between the state budget and the economy can be expressed in the following way.

A. Losses resulting from wholesale price reductions.

1. A reduction in the receipts from the sale of commodities at the wholesale prices of the enterprises.
2. A reduction of the total income of the marketing organizations.
3. Lower cost of the resources used in construction.
4. Losses sustained from the downward revaluation of the uncredited above-norm material values.
5. Other losses.

Total.

B. Savings and income increment resulting from wholesale price reductions.

1. Reduction in the industry's cost of commodity output.
2. Reduction in the operating cost of transportation.
3. Reduction of expenditures of marketing and procurement organizations.

4. Reduced volume of capital work financing.
5. Lower cost of geological prospecting work financed by the state budget.
6. Cheaper capital repairs.
7. Cheaper cost of increasing turnover funds in the national economy.
8. Reduced production costs of machine-tractor stations.
9. Lower costs in connection with the accretion of state material and foodstuffs reserves.
10. Reduced expenditures for social and cultural purposes.
11. A reduction in the other state budget expenditures.
12. An increase in the turnover tax on mass consumption goods (in cases where the reduction of the wholesale prices on the means of production is not accompanied by a reduction in the retail prices).
13. Other types of income increment.

Total.

Types of Wholesale Prices on Industrial Commodities (uniform All-Union and differential wholesale prices)

The principle of uniformity of wholesale prices on the means of production sold to the consumers is realized in the following forms in various industries.

1. Uniform All-Union wholesale prices on commodities designed for production and construction purposes the transportation costs of which account for a relatively small share of the industry's final wholesale price (technical rubber products, ferrous and mitis metals).

2. Uniform wholesale prices for every given consumption area (zone). Such prices are fixed on certain types of commodities designed for production and construction purposes which are subject to zonal wholesale prices in the areas of consumption (oil products, construction metal, cement, and roofing materials).

3. Uniform All-Union prices for all commodity production points. Such prices are established for the majority of the processing branches of the heavy industry (chemical industry, paper-making, woodworking, building materials, and machine building).

4. Uniform wholesale prices within the limits of each individual production area (zone). Such prices are applied in a number of the extracting branches of the heavy industry where sharp zonal differences in the production costs exist (coal, lumber, and ore industries).

The differences in the prices used in various industries is due to the different transportation costs of commodities included in those prices.

The process of reproduction of commodities is not limited to their production alone. The product can be used only when it is delivered to the consumer. The delivery of the commodities from the producers to the consumers is an organic part of the

reproduction process, a continuation of the production process into the sphere of circulation. Transportation costs are added to the cost of commodities and financially reflected in their prices. The transportation costs of many types of commodities account for a considerable part of the final price paid for them by the consumers. In the case of round timber the transportation costs, including the cost of reloading the timber from one type of transportation to another, account for over 45% of the final selling price. About 1/3 of the price of cement also consists of transportation cost.

But the actual public costs of commodity transportation may differ in extent from the transportation costs reimbursed in the wholesale prices of the respective types of commodities. In one case the wholesale price will equal the total price of the commodity paid by the consumers. In another the consumer will have to pay cartage charges over and above the established wholesale prices. All this depends on the particular method the supplier uses to deliver the commodities to the consumer or, as the expression goes, what type of FOB is used in the case of a particular commodity shipment. The FOB indicates at what point the commodity is turned over to the consumer and how the transportation charges are reimbursed according to the existing price list.

The following basic types of prepaid delivery are used in the industry of the USSR.

- (1) FOB supplying plant, whereby all transportation costs are charged to the consumer.

(2) FOB shipping railroad station, whereby the shipper assumes the cost of delivering the commodities to the shipping station and loading them onto railroad cars.

(3) FOB delivery station, whereby the shipper also assumes the additional transportation costs to the delivery station.

(4) FOB consumer's warehouse, whereby the shipper assumes all the costs of delivering the commodities, including the cost of delivery by truck and the loading and unloading operations in the consumer's location.

Every list of wholesale prices indicates the type of pre-paid delivery used. It also tells about the payments for tare and packing (whether such costs are included in the price of the commodity or should be paid in addition to the established prices).

The last decade has been noted for the systematic extension of the use of FOB prices, final delivery railroad station. The latter kind of prices is applied to many types of construction materials (cement, glass, asbestos-cement, and roofing materials), oil products, and technical rubber products. Since 1 January 1951 wholesale FOB prices, final delivery railroad station, have also been applied to ferrous metals.

The large scale adoption of FOB prices, final delivery railroad station, is a matter of great importance. In the first place the wholesale prices on industrial commodities in this case reimburse all the cost of their production and delivery from the producers to the consumers. Thus the wholesale prices equal the actual prices paid for the commodities by the consumers. Secondly, since the shippers have to assume the transportation costs, they are

interested in reducing such costs and in the rational utilization of transportation facilities. Thirdly, the prices FOB destination point, insuring a uniformity of prices at every point of consumption, create a solid basis for calculating the cost of industrial commodities and the estimated costs of capital construction.

The use of wholesale prices FOB destination point however cannot be recommended as a universal measure applicable to all industries.

Practice has shown that the use of prepaid delivery to the destination point of mass produced commodities designed for production and construction purposes is expedient in the following cases.

1. When the production and consumption of a given type of commodity are not confined within local limits but extend to the entire USSR. In this case it becomes necessary to choose the most expedient method of railroad or river freight hauling from the place of production to the place of consumption. From this point of view, for example, it would be economically unjustifiable to offer prepaid delivery on local construction materials. Local construction materials as a rule are produced and used within the limits of the same oblast and are usually moved by local cartage and trucking facilities.

2. When the wholesale price marketing of all or most of the commodities is concentrated in a single centralized organization, as only in this case is it possible to plan correctly the freight traffic and to equalize transportation costs.

In adopting the prices including free delivery of certain types of commodities to the destination point, it is very important

to decide what those prices shall be, uniform All-Union prices or differential zonal prices. In the first case the transportation costs are equalized for the USSR as a whole and in the second case they are included in the wholesale prices at the actual rates existing in the various areas of consumption.

The following considerations can be cited in favor of equalizing transportation costs and using them as a basis for establishing uniform All-Union prices to include prepaid delivery to destination point.

1. A uniform price on the same commodities in all areas of consumption would facilitate the equalization of the production costs of all enterprises using those commodities.
 2. A uniform price would stimulate the interest of marketing organizations in reducing the hauling distances since any such reduction below the average norm set during the price fixing would mean a gain for the marketing business.
 3. Uniform prices would considerably simplify bookkeeping work both for the consumers and the shipping enterprises (a uniform price list).
 4. Finally, uniform prices would facilitate the very process of compiling a list of prices to include prepaid delivery to the destination point since they would eliminate the most time consuming element of price formation, the differential cost of hauling different types of commodities to different zones of consumption.
- All these considerations however are valid only when the costs of freight hauling are relatively small.

Let us consider one case wherein the transportation costs play an essential part in determining the level of wholesale prices which include prepaid delivery to destination point. Thus according to the calculations of the Ministry of Lumber and Paper Industry USSR the transportation costs of round construction timber varied in the 1950 plan according to the following lumber consuming areas (in rubles and kopecks per cubic meter):

Karelo-Finnish SSR	27.02
Belorussian SSR	34.02
Moscow Oblast	50.42
Chkalov Oblast	96.96
Azerbaijan SSR	111.90
Uzbek SSR	142.87
Tadzhik SSR	163.04

With such substantial differences in transportation costs the equalization of transportation costs would mean that the price no longer reflects the actual public costs of producing and circulating the commodities. The price of lumber based on the equalization of transportation costs would inflate the actual costs in the lumber producing and adjacent areas and underestimate the actual costs in the deficit lumber areas. But such prices would obviously be misleading for purposes of economic research and new construction planning. Under such a price system, for example, it might be equally expedient (from the point of view of transportation costs) to build saw mills in lumber producing and lumberless areas since the differences in the transportation costs of raw materials and finished products have been eliminated.

Further, in a number of cases the material incentive of a marketing organization to reduce hauling distances brought about by the equalization of transportation costs may come into conflict with the state's interest in supplying remote areas. Therefore the price must be fixed in such a way as to encourage the material incentive of the marketing organization to fulfill the plan in regard to supplying commodities to all areas. Finally, the weakness of uniform prices is that they do not encourage the development of local production of commodities made in remote areas. Thus, for example, the cost of producing ferrous metals in a number of areas is found to be higher than in the old areas of metallurgical production. Under the system of differential prices, including prepaid delivery to the destination point, the differences in transportation costs could be used to reimburse the higher costs in the new areas of metallurgical production. The equalization of transportation costs puts all the production areas under the same conditions. Consequently the mentioned advantages of uniform prices including prepaid delivery to the destination point are effective only when the transportation costs of the respective types of commodities are insignificant and have no marked effect on price formation. In all the other cases it is expedient to fix zonal wholesale prices, including prepaid railroad delivery to the destination point, that would insure (1) the correct reflection of the actual transportation cost of commodities within various consuming areas in the prices, (2) the possibility of using prices as a criterion for economic research and the planning of new construction, (3) the personal material interests of the marketing organizations in the punctual fulfillment of the supply plan for every area, and (4) the encouragement of local production of

commodities made in remote areas by reducing the importation of goods from distant places.

The Method of Fixing State Wholesale Prices on Production Means

A list of production means made by the industry and subject to price fixing by the government of the USSR was originally outlined in the decision of the Committee on Prices under the Council of Labor and Defense on 26 February 1932. It included the following relatively limited group of products: (1) fuel: coal, coke, peat, oil, kerosene, and benzine; (2) ferrous and nonferrous metals, wire, and nails; (3) building materials: cement, brick, slate, roofing paper, roof sheeting materials, and window glass; (4) lumber and wood products and the paper industry: round and saw timber, railroad ties, fuel wood, plywood, paper, etc; (5) lumber chemistry products: fresh rosin, turpentine, and acetic acid; (6) mineral fertilizer; (7) tractors and agricultural machinery; (8) automobiles; (9) locomotives and railroad cars; and (10) river and sea-going vessels.

The government of the USSR fixed the initial prices on the above groups of commodities on the basis of which the respective people's commissariats established detailed price lists covering the entire range of commodities produced by the enterprises under their jurisdiction.

That practice eventually underwent substantial changes. In the first place the nomenclature of commodities subject to government wholesale price fixing was extended during the implementation of the wholesale price reform in 1936-1940. Secondly the government proceeded from the initial price fixing to establishing

detailed price lists. At present the government of the USSR sets the wholesale prices for the entire large scale and serial production output.

The wholesale prices of commodities listed in the government approved price lists are established (a) for the Union and Union-Republic industries, by the respective producing ministries under agreement with the consuming ministries, (b) for the Republic industries, by the councils of ministries of the Union Republics, and (c) for the local and cooperative industries, by the oblast (and krai) executive committees.

Due to the introduction of new commodity production on a mass scale after the end of the war, the following system of payments for newly produced industrial commodities by various branches of the industry was established.

1. The commodities included in the government approved uniform price list for all goods were to be paid for according to such list prices.
2. The commodities not included in any uniform price list but subject to the existing wholesale prices fixed by the government for different producers who had already mastered the production of a given commodity are paid for by the consumer at those wholesale prices even though the enterprise first producing the new commodity is not under the jurisdiction of the ministry for which the prices are fixed. Under such circumstances the ministry in charge of the enterprise producing the new commodity under consideration for the first time must submit to the government a proposal on the price of the particular commodity not later than 6 months after the first batch of such commodities has been produced.

3. The wholesale price of commodities in initial production in the USSR and intended for mass and large scale serial production are fixed by agreement between the producing ministry and major consuming ministry on the basis of the plan cost of the commodity as determined by the estimate calculations. The producing ministry must submit a proposal on a permanent price for the approval of the Council of Ministers of the USSR not later than 6 months (and 9-12 months in the case of certain commodities of the heavy machine-building industry) after the first batch of such commodities has been produced.

4. The wholesale prices of commodities in initial production and intended for filling special orders or for small scale serial production are fixed by agreement between the producing and consuming ministries on the basis of the plan cost of the commodity as determined by the estimate calculations.

The ministries are empowered to approve wholesale prices on nonstandard commodities and services produced and used by the enterprises of the same ministry (parts and component units, special instruments and facilities produced for use within the ministry, as well as specialized equipment produced under special technical specifications of the respective enterprises, production services relating to the processing of certain parts, the production of articles to be used only once for the enterprise's own capital construction, etc).

In cases where commodities are shipped from the marketing or supplying organizations' warehouses to the locality of the consumer enterprise, a surcharge is added to the fixed wholesale prices of the marketing and supplying organizations. The latter

is fixed by the government of the USSR for the various ministries and departments of the USSR, and by the governments of the Union Republics for the respective republican and local organizations. For example the surcharges of the Glavavtotraktorsbyt, in effect since 1 January 1950, amount to 9.5% of the wholesale prices, of Soyuzpodshipnikosbyt 1.5%, of the Elektrosvyaz'sbyt 3%, and of the Glavstankoinstrumentsbyt. They amount to 2.8% of the sale of instruments and 4% of the sale of abrasives. These differential surcharges are due, first, to different commodity-transportation conditions and, second, to the different price levels of the sold commodities.

The necessity of reimbursing the costs of the marketing organizations in connection with the delivery of commodities from the warehouses provides no ground for any surcharges. These costs are reimbursed by the rebates (bonuses) offered to the marketing organizations by the producing enterprises. Thus the main metal marketing organization gets a 0.24% rebate on the wholesale price from the enterprises of the ferrous metallurgical industry and 0.25% from the enterprises of the fire-proof materials industry.

The establishment of such prices is in the final analysis reflected in the price list.

The price list existing under conditions of state-planned prices is a powerful vehicle for organizational purposes. It reflects, among other things, the state policy in the field of commodity assortments. The nomenclature of the commodities included in the price list must reflect the planned assortment in that particular field. Thus it is through the price list that the state exercises control over the variety of goods by keeping that list

from being contaminated by inferior products. The price list reflects the state specifications regarding the quality of the products. The price list should be compiled in such a way as to preclude the possibility of delivering inferior quality or unfinished products.

Every product listed in the price list is followed by a description including the name of the product, its brand or index, its purpose, operational data, dimensions and weight, component parts, and the number and date of the approved standard or technical specifications.

In all cases where the approved standard is applied to the production of several kinds of commodities, the differential prices charged for the different grades of the commodities or the rebates on the price of high grade commodities are indicated in the price list.

The price list makes it possible for the consumer and supplier to exercise mutual control over each other. That is why the price should as a rule indicate the final price of a product. The practice of increasing the list prices, still in use in regard to certain price lists, tends to confuse the accounts between the supplier and consumers and is conducive to violations of list prices. The use of price increases on commodities delivered on so-called special order should be reduced to the minimum. In such cases the price list should explain the reason for and size of the mentioned increases.

The fixing of price increases "by agreement of both sides" which actually amounts to changing the list prices should as a rule be avoided.

CHAPTER VII. THE USE OF VALUE INDEXES
IN NATIONAL ECONOMIC PLANNING

The Value Indexes of the Plan

The law of the systematic proportional development of the national economy, operative in a socialist society, signifies the objective necessity and possibility of a permanent and consciously maintained proportionate development of every part and aspect of the socialist economy. In this connection the basic premises of the Marxist theory of reproduction acquire particularly great importance for the socialist society.

The expansion of the socialist reproduction of the national product is carried out both in material and value terms. This is manifested in the planning of the national economy by the use of the material and value indexes of the national economic plan.

Defining the plan assignments for the various branches of the national economy in terms of value (value indexes of the plan) the Soviet Government uses the prices as an instrument for the planned management of the socialist economy. The prices are used to determine the tasks in the field of production, capital construction, material supplies, labor, commodity circulation, production and circulation costs, national income, etc and are combined into a uniform system of value indexes of the state plan of the development of the national economy.

The planning of production in terms of value is carried out through the use of indexes of the volume, dynamics, and structure of the commodities. The planning of the physical commodity volume is of very great importance. First of all it makes it possible to

coordinate the material production of the allied industries, disclose and eliminate the disproportion in the output of various types of commodities, and insure the complex material supply of all the branches of the national economy. But the planning of commodity output in physical terms alone is not enough. It makes it impossible to determine the volume and structure of the commodity output within individual industries and the national economy as a whole. In planning and calculating the commodity output volume of the national economy use is made of both physical and value indexes of gross and commercial production.

The gross production of an enterprise represents the value of the commodities produced by all its departments during a particular period of the plan minus the value of the commodities made on the premises and used by the enterprise for production purposes regardless of when those commodities were made.

The commercial production of an enterprise represents the value of the commodity output designed for disposal outside the enterprise, including the commodities required for its own capital construction and capital repairs as well as those turned over to its own nonindustrial enterprises and organizations (housing construction, division of workers' supplies, dining halls, etc).

In a number of industries where the production cycle is a lengthy one (many branches of the machine-building industry, the war industry, lumber production, the peat industry, etc) part of the current costs of production is used for stockpiling reserves required for the output of finished products in the next production cycle. These costs are represented in the increase of uncompleted production, semimanufactures, parts, stamping facilities,

instruments, and other facilities produced on the premises. It is obvious that in such industries the difference between the gross production and the output of commercial goods equals the value of the mentioned increases.

Gross and commercial production are measured in wholesale prices. Industry makes use of the respective indexes in planning the volume of gross (and commercial) output in terms of the wholesale prices of the particular enterprise and the gross (and commercial) output volume in terms of the industry's wholesale prices. The use of the enterprise's wholesale prices in the planning the gross and commercial commodity output is due to the following circumstances. The final wholesale price of an industrial product represents the wholesale price of the industry. It is at these prices that the industry's commodities are sold to the other branches of the national economy and channeled into the Soviet trade network. Therefore the full and actual cost of the industry's commodities as a whole can be determined only by appraising such commodities in terms of the industry's wholesale prices.

To estimate the production operations of a single enterprise or industry however it is necessary to use the wholesale prices of the enterprises. Indeed one of the elements that goes into the making of the industry's wholesale price is the turnover tax. As we have already seen, the relative share of the turnover tax in the wholesale prices of the industry varies with the different branches of industry. There is no turnover tax as a rule on the commodity output of the heavy industry branches. In the light and food industries the share of the turnover tax, as measured in prices, varies with different groups of commodities. Depending on

the share of the turnover tax on the prices of certain types of goods, the same costs of production may result in sharply differing commodity volumes if the latter are measured in terms of the industry's wholesale prices. This situation may lead to a distortion of the production results of individual enterprises and industries, particularly if their output contains groups of commodities subject to different turnover taxes on wholesale prices.

In the case of a number of commodities the share of the turnover tax as well as the wholesale price of the industry are directly dependent on the terms under which such commodities are realized. Thus the industry's wholesale prices of certain foodstuffs (salt, alcohol, and vegetable oil) are differentiated according to the category of the consumers. Under these conditions a change of consumers beyond the control of the enterprise itself may produce in one case a substantial increase in the volume of commodities in terms of value and in another a decrease in the volume of the same commodities.

Finally, of no little importance also is the fact that in a number of industries the sale of commodities at the full wholesale price (of the industry) is carried out not by the enterprises but by the industries' marketing organizations. For example the enterprises of the oil industry sell their products to the Glavneftesbyt at the wholesale prices of the enterprises while the marketing organization sells the same commodities at the wholesale prices of the industry. Consequently the real price at which an enterprise realizes its commodities is the wholesale price of the enterprise.

In view of the mentioned considerations, the wholesale prices of the enterprises are used by individual enterprises and ministries for estimating the fulfillment of the plan in regard to the commodity volume, and the wholesale prices of the industry are used for estimating the entire volume of commercial goods output.

The gross and commercial output of agriculture is measured in the prices at which the products are sold, and the part of the commercial output used for agricultural purposes is estimated at so-called average commercial commodity prices.

In planning capital work, prices are used to determine the volume of capital construction, its structure (actual construction work, equipment, assembly work), and dynamics. One of the characteristics of the socialist economy is that the new basic funds produced in the process of capital construction do not assume the form of commodities and do not become the objects of purchase and sale. Money which serves as an instrument of state control over the expenditure of public labor is reflected in the field of capital construction as the value of the constructed objects. The volume of capital work in the state plans is determined on the basis of the estimated cost of the new structures.

At the same time the construction industry, just like the other industries, operates on a self-supporting basis. This means, among other things, that its expenditures are reimbursed from its income. The source of income of the construction industry enterprises are the payments made to them by various economic organizations for construction work. Such payments are made according to special price rates representing a variety of wholesale prices, single rates on the component elements of general and special

construction work and prices on the assembly of equipment. The payment for the equipment assemblage and ready made equipment in turn is made at wholesale prices approved for that particular equipment. The cost of materials, calculated in unit rates per element of construction as well as according to the cost of equipment assembling, is also determined on the basis of wholesale prices. Thus the cost of construction that does not come under the category of industrial commodity prices is based on the existing system of wholesale prices.

In labor planning, prices are used as a measuring instrument of labor productivity in the national economy and its different branches. Productivity of labor in the national economic plan is determined by the index of output per worker. Indexes of value are used in the plan in addition to the physical production indexes (number of tons of coal per worker in the mine, the number of cubic meters of general purpose lumber per worker in the lumber industry, etc). The value index of output per worker is defined as the quotient obtained from the division of the gross output volume, valued at the wholesale prices of the enterprises, into the number of workers whose labor productivity is determined by the index under consideration.

Prices are used for purposes of planning the cost of production and circulation in the national economy. All the expenditures of basic and circulating production funds are valued at the existing state wholesale prices.

The calculation of the commodity cost of the industry and state farms, the tractor work performed by machine-tractor stations, and freight hauling by all types of transportation is also

made on the basis of state wholesale prices paid for raw material, fuel, and other elements used for production purposes.

Prices are used for planning the turnover of goods. The volume of state and cooperative trade as a whole as well as the volume of the different trade systems are calculated in terms of state retail prices.

Prices are used for evaluating the state of the national economy, particularly for the planning of production, distribution, consumption, and surplus accumulation of the total national product and the national income. In a word, the drafting and the control over the implementation of the most important integral parts of the plan of national economic development is in one way or another connected with the use of the instrument of prices.

Measuring the Dynamics of the National Economy and Price Indexes

So far we have confined ourselves to describing the use of prices in the planning of so-called volume assignments to the branches of the national economy. The discussion dealt with volumes of gross and commercial commodity output during a specific period, the planned output per worker, production costs, and the volume of retail goods turnover. The state plans however provide also for indexes of the dynamics of the national economy in addition to the assignments by volume.

Our state economic plans are plans for the development of the Soviet economy. Reflecting the essential requirements of the objectively operating laws of economic development, they determine the direction and required tempos of development of the national economy. The creation of a material abundance in the USSR, the

insuring of the defensive capacity and independence of the USSR, and the strengthening of the international positions and foreign economic ties of the first socialist state in the world are problems closely tied to the development tempos of socialist production.

The use of the existing prices for planning the value indexes of the dynamics of the national economy however involves certain methodological difficulties. To take a reliable measure of the dynamics over a number of years, we must see to it that the particular measure used is identical throughout that period. The existing state prices cannot, by their very nature, serve as such a measure. A consistent reduction in prices is carried out in the Soviet state. This means that the prices in force at any particular period of time covered by the plan may differ from the prices of the preceding period and from those included in the plan.

Let us take, for example, the five-year plan assignment in regard to product A and the indexes showing the implementation of that task in terms of existing prices.

<u>Indexes</u>	<u>Unit of Measure</u>	<u>1945</u>	<u>1950</u>	<u>1950: % of 1945</u>
No of items according to plan	units	10,000	16,000	160.0
Price specified in the plan	rubles	1,000	1,000	100.0
Volume of goods, in terms of value, according to plan	million rubles	10.0	16.0	160.0
No of items as per account rendered	units	10,000	18,000	180.0
Actual price	rubles	1,000	800	80.0
Volume of goods, in terms of value, as per account rendered	million rubles	10.0	14.4	144.0

The table shows that the actual volume of commodities was increased by 44% as against the 60% increase, in value terms, called for by the plan, that is, that the plan was allegedly not fulfilled. However suffice to consult the indexes of the physical aspect of the plan fulfillment indicated in the above table to become convinced that the commodity output plan was considerably overfulfilled. The prescribed physical increase of commodity output was 60% but the actual quantity of items was increased by 80%.

The distortion of the indexes of production in this case is the result of the incomparability of the actual prices with those specified in the plan. The plan specifies the same price in 1950 as in 1945, that is, 1,000 rubles per unit, whereas the actual price was reduced to 800 rubles. To determine the actual change in the physical volume of commodities it is necessary to eliminate the effect of price changes. The index of the physical volume of goods will be determined as the ratio between the commodity volume expressed in terms of value and the price index. In the example we cited above the commodity index expressed in terms of value is 144 and the price index is 80.

The index of the physical volume of commodities will then amount to

$$\frac{144}{80} \times 100 = 180.$$

Thus the utilization of prices for planning purposes calls for the development of a system of price indexes and the use of such indexes to determine the indexes of the dynamics of the national economy of the USSR.

The System of Price Indexes

What is understood by a price index is a relative value characterizing the price changes during 2 definite periods of time. One of these periods is taken as a basis for determining the dynamics of prices. Thus in the index of price changes for 1950 as compared with 1945, the latter year is taken as a base, that is, the 1945 price level is taken as 100. Either the current or the plan period can be used as a basis. For example, in the practice of planning, it is necessary to measure the prices with reference to a definite date as compared to the actual prices existing in one of the accountable periods as well as to the prices called for by the plan. In the first case, reference is made to the current price indexes, and in the second to the price indexes indicated in the plan.

The price index of a single type of commodity is calculated as the ratio of the price of that commodity at a specified date to the price existing on the date used as a base. In the example cited above, the price index of commodity A, that is, the individual index, equals

$$\frac{800}{1,000} \times 100 = 80.$$

When the computation of the price index of a whole group of commodities is required the calculations become more complicated. Let us assume that we have not one but 5 different commodities and that their prices underwent the following changes.

<u>Commodities</u>	<u>Price Index</u>
A	80
B	90
C	75
D	65
E	95

What is the average price change for the entire group of commodities?

Let us use the arithmetical mean of the mentioned 5 indexes as an average. It will amount to

$$\frac{80 + 90 + 75 + 65 + 95}{5} = 81.$$

How reliable will such an index be? It would be precise if the relative share of each of the 5 commodities in the total commodity volume were the same. Failing this, the price index thus computed will be unreliable. Let us trace the changes in the group index due to the relative shares of the different commodities.

<u>Variants</u>	<u>Relative Share of Commodities in %</u>					<u>Group Price Index</u>
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	
I	20	20	20	20	20	81.0
II	40	20	15	10	15	82.0
III	10	30	15	5	40	87.5
IV	20	10	30	35	5	75.0
V	15	15	20	40	10	76.0

From this it follows that the computation of a group price index must take into account the structure of the commodities involved. Changes may occur not only in the individual prices of the commodities but also in their respective volumes, as compared

to the base period. To avoid the distorting effect of that factor, the same commodity structure must be used for both the base period and the date for which the index is computed.

The group price index, determined by the combined index formula, is presented in the following way.

$$V = \frac{P_1Q_1 + P_2Q_2 + P_3Q_3 + \dots + P_nQ_n}{P_1Q_1 + P_2Q_2 + P_3Q_3 + \dots + P_nQ_n} = \frac{\sum PQ}{\sum PQ}$$

in which V represents the (average) group price index, $P_1, P_2, P_3,$ and P_n the prices of the commodities at the time the index was computed (current or plan period), $P_1, P_2, P_3,$ and P_n the prices of the same commodities in the base period, and $Q_1, Q_2, Q_3,$ and Q_n the quantity of commodities.

There are several methods of calculating price indexes:

(1) by selecting a group of stable products, (2) on the basis of unchanged volumes of different groups of products, (3) on the basis of the relative volumes of different groups of commodities existing at any particular period covered by the price index, and (4) by a re-evaluation of all commodities in terms of 2 prices (base period and existing prices).

The advantage, and probably the only advantage, of the price indexes calculated on the basis of a permanent selection of commodities is that their structure is relatively simple and can be easily checked. But such indexes can be reliable only when the selection covers a volume of products which is decisive in quantity and typical in importance. But this is in fact made impossible by the very form of the index which calls for a relatively limited nomenclature of representative commodities.

The price indexes calculated on the basis of unchanged relative volumes of commodities are superior to the previous types of indexes only in that they take into account the price changes of the entire commodity output. The correlation between different groups of products however is taken as a constant. Therefore such an index cannot be considered fully reliable under conditions of substantial structural changes in the commodities and dissimilar dynamics of prices on different groups of commodities.

In the planning and the statistics of the national economy it is customary to calculate price indexes on the basis of the relative volumes of different groups of commodities existing at any particular period of time covered by the price index under consideration. Price indexes are computed according to the commodity structure of the base period or the date for which the index is meant. The commodity structure is as a rule applied to the date for which the index is computed. The total price index for the industry as a whole or for its various branches can be computed on the basis of the figures showing the average price changes affecting different groups of products and the relative volume of different groups of commodities. Such an index would be sufficiently reliable for the purpose of characterizing the total price changes in the industry as a whole and its various branches. But indexes computed in that fashion cannot always be used for calculating the physical volume of commodities (or labor productivity) of individual enterprises. Indeed the average price changes affecting a single group of commodities as a whole may not characterize the actual changes in the prices of the commodities comprising that group and produced by the given enterprise in cases where there is no equal price reduction on all commodities. But the

planning of production in terms of existing prices calls for the calculation of price indexes not only for the industry as a whole and not only for the various branches of industry but also for individual enterprises. This calls for the computation of price indexes for single enterprises on the basis of a revaluation of the commodities in terms of 2 prices (base period and existing prices).

The necessity of planning the dynamics of commodity output and labor productivity in comparable prices and the impossibility of determining price indexes for single enterprises except by a revaluation of the commodities in terms of 2 prices (base period and existing prices) necessitates the use of the dynamics of commodity prices, fixed for a certain date, as a measuring device for planning purposes. Thus the wholesale prices of enterprises in force by 1 January 1952 have been used since January 1952 for planning the dynamics of gross commodity production and the output per worker during the Fifth Five-Year Plan.

The following price indexes are calculated and used in the national economic planning and statistics in the Soviet Union:

(1) the wholesale price index of the industry, (2) the total general index of retail prices, (3) the retail price index of the state and cooperative trade, (4) the price index of the collective farm trade, and (5) the index of procurement prices.

CHAPTER VIII. THE SOVIET PRICE SYSTEM
AT DIFFERENT STAGES OF THE DEVELOPMENT
OF THE SOCIALIST SOCIETY

The Price System in the USSR in the Prewar Period

The price system now in existence in the USSR was largely developed during the last five-year plan before the Great Fatherland War, after the Soviet state entered the second phase of its development.

As far back as the period of transition from capitalism to socialism the Soviet state made use of the objective economic laws to determine the movement of prices in the USSR.

However the existence of capitalist elements in production and in the sphere of circulation at that time made possible a spontaneous redistribution of part of the national income, through the medium of prices, in favor of those capitalist elements. This created an urgent problem for the Soviet states to make full use of the instrument of prices with a view to ousting the capitalist elements from the USSR's economy, distributing and redistributing the national income in favor of the working class and working peasants, increasing the socialist surplus accumulation for industrializing the USSR, and creating the material conditions for the complete liquidation of the exploiting elements.

All the price problems of that period were being solved under conditions of a desperate class struggle. The pressed capitalist elements of the towns and villages attempted to use the prices to strengthen their position and undermine the dictatorship of the proletariat. They tried under those conditions to

impose a policy of high and growing prices on the country and to undermine the Soviet ruble. The party and the Soviet Government countered that with a policy of serving the interests of the people, a policy of stabilizing the prices of agricultural products and reducing the prices of industrial goods.

"We have no free play of prices on the market as is usually the case in the capitalist countries," Stalin said in his speech to the plenum of the TsK and the Central Control Committee of the VKP(b) in 1929. "We largely determine the prices of bread. We determine the prices of industrial goods. We try to implement a policy of lowering production costs and reducing the prices of industrial goods and are striving to maintain stable prices on agricultural products. Is it not clear why no such special and specific measures are taken in the markets of the capitalist countries" (Stalin, I. V., Soch., Vol 12, pages 43-44).

The victory of the socialist economy in the USSR has produced a change in the role and nature of price utilization.

The elimination of the capitalist elements from production and the sphere of goods circulation obviated the necessity of using the prices as a method of ousting the capitalist elements and redistributing their income in favor of the socialist economy. At the same time, the importance of prices as an instrument for organizing the economic activities of the Soviet state was increased. They stimulated production and the development of commodity circulation between the towns and villages, between different branches of the economy and areas of the country, and the systematic expansion of national consumption by raising the purchasing power of the Soviet ruble. The extent of government control over price formation in the country rose to unprecedented heights.

In the field of retail prices, this was manifested, following the abolition of the ration system of supplying the population with mass consumption industrial goods and foodstuffs in 1935, in the gradual transition to uniform (including zonal) retail prices fixed by the government.

The peculiar feature of retail price formation up to that time had been the establishment of final prices for most of the commodities within the trade network itself on the basis of different price-forming factors determined by various organs of the state. Only a small group of commodities were covered by the stable retail prices fixed by the government and so designated on the labels, the so-called label prices (on cigarettes, tobacco, matches, toilet soap, school note books, and electric bulbs). As for the other goods, the retail prices of each batch of goods were computed by the trade organizations by way of adding the trade and transportation costs to the industry's wholesale price, and in rural areas the trucking costs were added. Trade and transportation charges were fixed by the government for only part of the goods. The charges on all the other commodities were determined by the Ministry of Trade and even by the trade organizations themselves (on so-called "third category" goods). The trucking and cartage charges were approved by the oblast (and krai) organizations. Such a practice of determining retail prices inevitably led to a disparity in the prices for the same goods sold in the same place. It also made price fixing extremely complicated, required a large staff of bookkeepers in the trade network, and slowed the circulation of goods. Of no little importance also was the fact that the system of calculating retail prices then in use made it difficult for the consumers to exercise control over prices.

The introduction of government approved price lists of uniform retail prices contributed a great deal to the strengthening of the purchasing power of the ruble and the stability of wages.

First, the retail prices could no longer fluctuate according to the changes in the expenditures of the trade network. Second, the differential prices on foodstuffs for a limited number of zones and the introduction of uniform prices for most of the industrial commodities did much to equalize the real wage levels in different areas.

The introduction of uniform retail prices played an important part in stimulating better work and stricter control over the observance of the Soviet price policy on the part of the trade organizations. The uniform retail price lists created unprecedented possibilities for the consumers to exercise control over prices.

The trade organizations were relieved of the function of calculating state retail prices for all mass consumption goods, a function unusual for them. The trade and transportation charges added by the trade organizations to the wholesale selling prices were replaced by government-fixed rebates in every approved price list to cover the expenditures of the trade (in certain percentages of the retail prices).

The changeover to the system of fixing uniform state retail prices signified a substantial change in the role of the industry's wholesale price in the process of price formation affecting mass consumption goods. By approving the fixed retail prices and defining the rebates required to cover the costs of the trade, the state also determines the wholesale price level of the industry.

The wholesale price of the industry is industry's share of the final price at which the goods are sold to the consumer, the state retail price. This also put an end to the outward insulation of the industry's wholesale prices from retail prices. The retail price of mass consumption goods now determines the industry's wholesale ceiling prices. This prompts the industry to make its production costs commensurable with the retail price.

Industry's relation to the process of price formation itself has also changed. Retail prices and the market are no longer of interest to the trade organizations alone. The marketing of mass consumption goods directly affects the financial results of the operations of industrial enterprises.

As long as retail prices were formed by way of adding trade charges to the wholesale prices, the costs of commodity circulation in the trade network were not directly reflected in the industry's financial operations. Under the system of fixed retail prices, the final retail price consists of 2 integral parts, the share of the trade, as fixed by the trade rebate, and the share of industry representing the price minus the trade rebate. Obviously the larger the share of the trade the smaller the share of the industry. Such a price structure contributes to the strengthening of mutual control over the costs of production and commodity circulation. The changes made in the recent system of crediting the financial accumulations produced by the prices of goods to the state budget played an important part in the matter of price formation in regard to consumer goods. A single method of insuring such credits to the state budget, the turnover tax, was introduced to replace the vestige of the supply rationing period, that is, the separately existing

budgetary discrepancies and special deductions in favor of the budget in addition to the turnover tax.

At the same time a number of light industries changed the method of calculating and paying their turnover tax to the state budget. Practice has shown that in regard to groups of commodities produced in large varieties (such as cloth, for example) the existing method of collecting turnover taxes in the form of percentage rates of the industry's wholesale price is unsuccessful. Even a large number of such percentage deductions could not insure a more or less even profit level of various types of goods and individual items. This was conducive to distortions in the process of setting up directors' funds for various enterprises and to violations of the plan assignments in regard to the assortment of goods. A system of dual prices was introduced in 1939, first in the textile industry and later in a number of other industries. This system called for fixed retail as well as wholesale prices (without the turnover tax) built on the basis of the planned cost and normal profit level of various types of goods. The difference between the retail prices without the trade rebates and the wholesale prices without the turnover tax was credited to the state budget. The introduction of wholesale prices without the turnover tax made possible not only a greater uniformity of profit on various articles and types of commodities but also a greater financial stability of the enterprises.

The enhancement of the role of prices as an instrument of economic and organizational activities of the Soviet state required the introduction of a reform in the wholesale prices on the means of production. The wholesale price system in existence at that

time provided for government subsidies to the most important industries. Subsidies paid out of the state budget were unavoidable at a certain stage of our industrial development. In a short period of time the Soviet state built a large number of new enterprises and created a number of new industries which have never existed in Russia before. It took some time to develop the proper operations of those enterprises and it was quite natural at first to incur excessive production costs in the output of new types of commodities.

To build the wholesale prices on the basis of these temporary production overexpenditures would have amounted to misleading the economic organizations, contributing to their complacency, and depriving them of the stimuli for improving their production methods. It is obvious that the problems involving the wholesale price level and profitable operations could not be approached under the then existing circumstances. The possibilities of a further reduction of production costs had to be taken into account and all the operations of the economic organizations had to be subordinated to those possibilities.

The substantial successes achieved during the first half of the Second Five-Year Plan in the matter of reducing production costs and the increased possibilities for surplus accumulation not only in the light but also in the heavy industry naturally raised the question of abolishing the system of state subsidies and establishing prices designed to reimburse the industry's costs. The system of state subsidies, absolutely unavoidable and justifiable at a certain stage of development of the Soviet industry, began to act as a brake on its development. A reform of industrial wholesale

prices was carried out between 1936 and 1940. The gist of that reform was the fixing of wholesale prices on the basis of cost and minimum profit.

At the same time a reform was introduced into the system of transportation rates. The railroad transportation rates were changed with a view to covering the cost and insuring the profitable operations of freight hauling to the extent necessary for the promotion of expanded reproduction of the railroad transportation through its own sources of accumulation. River and sea transportation rates were established with a view to encouraging the consumers to make every possible use of waterway transportation.

The existing state procurement prices, adjusted to conform to the new conditions of agricultural procurements following the abolition of supply rationing assumed their final shape during the same period. The problem of increasing the role of procurement prices in encouraging higher harvest yields and larger deliveries of agricultural raw materials to the state was tackled in a new fashion. Special bonuses were introduced for increased deliveries of cotton to the state and later also for many other types of agricultural products.

Thus a unified system of fixed state wholesale and retail procurement prices came into being by the beginning of the Great Fatherland War. This system served as an important stabilizing factor of the Soviet economy during the severe wartime tests.

The Soviet Price System During the Great Fatherland War

The war imposed great hardships on the Soviet economy which convincingly demonstrated its enormous advantage over the capitalist

economy in those severe wartime years. The Soviet price system also stood the test of wartime.

During the Great Fatherland War the socialist state made successful use of the instrument of prices. It used that instrument to alleviate the hardships of war endured by the people by influencing the costs of the war industry, to protect the real wages of workers and employees from the spontaneous fluctuation of prices on the unorganized market, and to encourage the collective farmers and farms to honor their economic obligations to the state. In the course of the war the socialist state succeeded in insuring the stability of wholesale prices on raw materials, fuel, industrial equipment, and of retail prices on mass consumer goods in the controlled retail trade and in considerably reducing the wholesale prices of war materials at the same time.

The significance of that fact will be appreciated when we bear in mind the exceptional difficulties faced by the USSR economy at that time in the realization of the Soviet price policy.

The Great Fatherland War brought about substantial changes in the commodity circulation in the country. The temporary loss of a part of the USSR's territory with a highly developed agriculture, heavy, light, and food industries and the conversion of very many enterprises to war production culminated in a considerable reduction in the production of foodstuffs and industrial goods. At the same time the total share of marketable consumer goods was sharply reduced in favor of the growing consumption of war material. The enormous costs of prosecuting the war in turn required a limited issue of additional currency in the first years of the war as a supplementary financial source for the state to finance the war.

The introduction of rationing of consumer goods enabled the state to maintain the stability of state retail prices on foodstuffs and other essential goods. The retention of prewar prices on rationed goods entailed definite losses for the state. These losses were brought about in part by the fact that the prewar prices lagged behind the production costs of consumer goods which were considerably increased as a result of the temporary loss of the districts supplying many industries with the cheapest agricultural raw materials, poor crops of agricultural raw materials and lower productivity of the stock raising industry, poorer indexes of raw material utilization due to the loss of many technically well equipped enterprises, and the growing cost of wages per unit of production.

But the state had anticipated those losses considering them as unavoidable wartime losses without which it would be impossible to insure a stable budget for the working people and therefore also the required level of productivity for the developing war economy.

Different relations emerged in the sphere of prices beyond the confines of the organized market. Since the state prices on rationed goods remained unchanged, the entire money surplus flowed into the collective farm market which continued to function during the war. Before the war the share of the collective farm market in the entire volume of retail goods turnover amounted to 19%. In the first years of the war the amount of money available for the purchase of goods sold on the collective farm market was increased many times over. This produced a sharp increase in prices on the collective farm markets in the cities in the first years of the war. The prices continued to grow until the middle of 1943.

Having secured the regular supply of the population with stable rations at stable prices, the Soviet state found it possible, to the extent permitted by the restoration of agricultural production and the increasing output of industrial goods, to allocate certain quantities of foodstuffs and other essential goods for supplying the population through commercial trade channels in addition to the ration-card goods. This unrationed commercial trade enabled the Soviet state to meet the demand which could not be met with rationed goods and to derive additional financial resources for financing the war and the national economy. The prices charged in the commercial trade network were determined on the basis of the commodities available to the state for channeling into commercial trade, the necessity of recouping some of the losses caused by the retention of prewar prices on rationed goods and the possible strengthening of the economic influence on the collective farm market.

The development of commercial trade and the consistent reduction of the prices existing in it had a beneficial influence on the collective farm market. At the same time this commercial trade represented a very important preparatory stage for the expansion of open trade without ration cards.

In addition to the stability of retail prices on the mass consumer goods sold on the rationed market during the war, the Soviet state also introduced a sharp reduction in the prices of war materiel and ammunition for the armed forces as well as the stability of the wholesale prices on the means of production and other types of civilian goods.

The enormous successes achieved by the Soviet industry in the designing of new types of military facilities, the introduction of advanced technology, and the organization of war production on a mass scale created the necessary conditions for reducing the costs of producing armaments and ammunition for the armed forces.

The cost of certain types of tanks, planes, artillery, and other firing equipment was reduced to 1/2 and 1/3. The cost of war production as a whole was reduced by more than 50 billion rubles during the war. This made possible a corresponding reduction in the wholesale prices of the commodities supplied under war orders which resulted in considerable savings on war expenditures.

The situation in regard to the cost of the heavy industry output was somewhat different. Considerable changes took place in the economy of the most important branches of the heavy industry during the war, including the temporary loss of the Donets Coal Basin, the Krivoy Rog iron ore basin, the southern metallurgical industry, and the Dnieper electric power system; the removal of many first class machine building enterprises to the east; the basic changes in transportation; and the losses of qualified cadres. The forced development of the raw material, fuel, and power branches of the heavy industry called for the introduction of special incentive wage systems in those branches.

Under such conditions the cost of commodity output in a number of branches of the heavy industry was increased during the war. The gap between the rising production costs of the heavy industry and the relatively low prewar fixed wholesale prices on the commodities of that industry could be eliminated by 2 methods, by raising the wholesale prices to the level of the increased

production costs or by reimbursing the losses sustained by the heavy industry with subsidies from the state budget.

The Soviet Government kept the prewar wholesale prices on heavy industry commodities and introduced a system of state subsidies to the branches of heavy industry operating at a loss as a temporary measure for the duration of the war.

The stability of the wholesale prices of raw materials and fuel as well as transportation rates were important elements in the struggle for lower production costs of the war industry. To achieve the full mobilization of all available reserves in industry connected with the development of large scale war production, it was necessary for the war enterprises to keep a strict and reliable account of their own expenditures. Such control over the expenditures and the effective influence on them on the part of the state could not be achieved under conditions of unstable and rising prices of industrial raw materials, fuel, and electric power.

The retention of the prewar prices on industrial raw materials and fuel as well as transportation rates despite the losses they incurred due to wartime conditions was dictated by the interests of the stability of retail prices on mass consumer goods. The population's demand for mass consumer goods under war conditions could be met by way of including into the commodity circulation not only centralized stocks but also local resources. And the maintenance of the Soviet price system, that is, the stability of the state retail prices on all rationed goods including the locally produced goods, could not have been achieved under conditions of growing wholesale prices on the means of production and rising freight hauling rates.

Finally, the adjustment of the wholesale prices of the means of production to their wartime production cost would have meant that the postwar reconstruction of the national economy would have to be carried out on the basis of high prices incompatible with the peaceful construction and the establishment of the proper value correlations among the various branches of the Soviet economy. This situation could have created additional difficulties during the postwar reconversion of industry to peacetime construction.

All this made it expedient to keep the prewar wholesale prices on the heavy industry commodity output. But the losses sustained by heavy industry were more than covered by the savings achieved through the reduction of the production costs of the war industry which were redistributed with the aid of state budget levers.

Of all the countries at war, only the Soviet state carried out a systematic reduction in the prices of war materiel during the war.

The situation in the bourgeois countries presented a different picture. The capitalist monopolies of the US, Britain, and the other bourgeois countries used the war as a method of making fabulous profits. Thus through the notorious policy of government "control of wages and prices" American monopoly capitalism succeeded in "freezing" wages and using the benefits derived from the growing labor productivity under conditions of mass war production as a source of its own colossal enrichment.

At the same time the American monopolies, using the alleged necessity for the state to make sacrifices in the interests of price

stabilization as a pretext, took advantage of the tax system to redistribute the workers' income in their own favor. Thus the so-called price control in the US, Britain, and other capitalist countries during World War II was the form of "economic life control" which V. I. Lenin had referred to during World War I.

"Both the US and Germany 'are controlling the economic life' with a view to creating military penal servitude for the workers (and partly also for the peasants) and a heaven on earth for the bankers and capitalists. Their control amounts to 'driving' the workers to hunger and securing higher profits for the capitalists (secretly, by reactionary bureaucratic methods) than those obtainable before the war" (Lenin, V. I., Soch., Vol 25, page 309).

First of all price "control" in the capitalist countries did not preclude any straight and pretty sizable increases in the official prices during the war.

As early as 1943 the wholesale prices in the US were increased, according to official figures, by 35% and in Britain by 67% as compared to 1939 (Monthly Bulletin of Statistics, June 1944, page 186). But the actual price increases were considerably higher than the official statistical figures. In the first place in addition to the market which was more or less controlled by the government there was also a so-called black market with considerably higher prices in the capitalist countries during the war. Secondly the official government statistics cite only the figures dealing with official wholesale price changes, ignoring all the other income sources of the capitalist monopolies and thereby concealing from the working people the actual structure of prices and the profits made by the capitalists. At the same time World War II introduced

many new sources of monopoly profits for capitalist cartels. In addition to straight increases in prices during World War II, the bourgeois governments made large scale use of the tax methods to redistribute the workers' incomes in favor of the capitalist monopolies. Thus government subsidies over and above the established price level were paid under the pretext of stabilizing prices on goods. In Britain about 600 million pounds of taxpayers' money were paid during the war in government subsidies to wholesale firms dealing in foodstuffs. In the US government subsidies, that is, taxpayers' money, were paid for many types of strategic raw materials (copper, lead, liquid fuel, etc). Thus by creating a semblance of price stability and refusing the demand for higher wages, the bourgeois government insured the growing income of the capitalist monopolists by raising the taxes on wages.

Another method of deliberately concealing the actual increases in the prices and profits of the capitalist monopolies during the war was to charge to the taxpayers a considerable part of the cost of the production designed to fill government war orders.

An unprecedentedly high amortization on fixed capital, 20% per annum, was charged in connection with government orders in the US. The capitalist monopolies were at the same time permitted to write off deductions for various insurance and reserve funds which made it possible for them to avoid the payment of taxes on a considerable part of their profits. The prices paid for war materials guaranteed a high profit level in all cases. Such were the consequences of the management by the capitalist monopolies who took advantage of the war orders to make the highest possible profits.

That is why World War II was so exceptionally profitable for the capitalist monopolies. The net profits of all American corporations during the war (after taxes have been deducted) were almost 3 times as much as the prewar profits, as may be seen from the following table.

	<u>5 Prewar Years</u> <u>(1935-1939)</u>	<u>5 World War II</u> <u>Years (1940-1944)</u>
Net profits of all American corporations	15.3 billion dollars	42.3 billion dollars

Postwar Economic Reconstruction and the Adoption of Uniform State Retail Prices

The system of stable prices on rationed goods and falling prices on available unrationed goods was both inevitable and to the best interests of the USSR in time of war.

The existing commercial trade however produced a multiplicity of state prices. By the end of the war there were the following state retail prices for the same commodity depending on where it was available for sale: ration prices kept at the prewar level; somewhat higher prices on industrial goods sold to farmers in proportion to the quantity of produce they sold to the state at government-fixed prices (rural prices); and high commercial prices. And when the commercial trade was first organized there were different cut prices for different categories of consumers in addition to the general commercial prices.

The multiplicity of prices created a situation whereby the same amount of labor, expressed in terms of the workers' financial income, was exchanged for a different amount of labor embodied in consumer goods. This reduced the purchasing power of the ruble

and the significance of wages as a stimulant for higher labor productivity. The existence of a variety of prices brought about a spontaneous flight of some of the rationed products and industrial goods to the open market. The multiplicity of prices gave rise to speculation making it possible for speculating elements to batten on the population and the state.

That is why immediately after the end of the war the TsK KPSS and the Soviet Government decided to adopt the important post-war measure of abolishing the multiplicity of prices as inimical to the further development of the Soviet economy and to change to a normal trade system based on uniform state retail prices fixed in relation to public production costs.

The changeover to uniform prices had been prepared by gradually narrowing the gap between ration and commercial prices through the systematic reduction of prices and expansion of commodity turnover in the commercial trade. Following the considerable reduction in the prices of all goods in the commercial trade and the slight increase in the very low prices of certain rationed foodstuffs introduced in September 1946 the gap between the ration and commercial prices was reduced to a minimum. That is how the changeover to uniform prices was facilitated. The introduction of uniform prices however required one more condition. It was necessary to bring order into the money circulation and eliminate the surplus of depreciated currency which bore heavily on the market producing an unsteady commodity turnover. This situation was remedied by the introduction of a currency reform.

The new uniform state retail prices were fixed at a figure 2.5 times lower than the commercial prices on foodstuffs and 3.2

times lower in the case of industrial goods. And the prices of such items of daily use as bread, cereals, and macaroni products were fixed at 10-12% below the existing ration prices. The previous ration prices were retained on meat, fish, fats, sugar, confectionery, potatoes, vegetables, tobacco products, and matches.

The changeover to uniform state retail prices signalled the abolition of the survivals of wartime in the field of distribution and the strengthening of the economic levers controlled by the socialist society. The role of money as an economic instrument of the Soviet state for the organization of production and distribution was enhanced. With the bulk of the commodities concentrated in the hands of the state, the adoption of the system of uniform state retail prices based on stable wholesale and procurement prices improved the stability of money circulation to a very large degree.

The elimination of the gaps between the prices for the same products served to destroy the economic basis for speculation and for the spontaneous violations of the planned currency circulation which produced a disparity between currency circulation and commodity turnover. The use of uniform state prices, the abolition of the ration card system, and the improvement of currency circulation opened a wide field for the operations of the principles of socialist organization of labor and wages which are characteristic of the first phase of a communist society. The role of money, as the only measure of labor expenditure and consumption, was enhanced. The consistent realization of the socialist principle of distribution according to the quantity and quality of labor expended is thereby assured.

The wide gap between the prices of rationed goods and the commercial prices of unrationed commodities obtainable in addition to the rations, existing under the ration card system, tended to reduce the difference between the real wages of skilled and unskilled workers employed in the basic and service industries and between those doing hard and light work. That situation also served to limit the possibilities of using incentive wages as an additional inducement to higher labor productivity.

The liquidation of the multiplicity of prices by abolishing the rationing of goods served to undermine the system of wage leveling and to create all the necessary prerequisites for the consistent realization of the Soviet state policy in the field of wages which provides for the fixing of wages according to the quality of the work performed and the conditions under which it was performed.

Under the uniform price system it becomes possible to make large scale use of incentive wage scales and piece work as well as bonuses for the engineering and technical personnel with a view to achieving a high productivity of labor and a systematic overfulfillment of production plans.

The steady improvement of the workers' living standard is the law of socialist production. Prices and wages are the links of the general mechanism for the distribution of the national income between surplus accumulation and consumption. The well-being of the masses in the Soviet Union is steadily improving both through the increasing income of the workers and the reduction of retail prices. The correlation between these links may change under the concrete conditions of any particular period while the systematic

improvement of the material and cultural conditions of the workers remains unchanged.

When the currency circulation has been put in order and the changeover to the system of uniform state retail prices completed, the improvement of the workers' living conditions, particularly the increases in real wages, is largely determined by the systematic growth of the ruble's purchasing power which in turn is made possible by the consistent realization of the Soviet policy of retail price reduction.

The role of prices in the process of stimulating agricultural production has been enhanced. The high price level existing in commercial trade and on the collective farm markets tended to depress the real value of procurement prices. This also served to unbalance the correlations between the various branches of agriculture in regard to their income. While in the prewar period the technical cultures, comprising a large part of the agricultural output, were the most profitable items of agriculture, first place in wartime was held by food cultures some of which brought high prices on the collective farm market. The bonus system which played an exceptionally important part before the war in promoting agricultural production, particularly technical cultures, lost its previous importance following the drop in the ruble's purchasing power in the first period of the war.

The introduction of uniform state retail prices, while such prices were being reduced throughout the USSR, and the normalization of the collective farm market brought about a substantial increase in the value of state procurement prices. The stable procurement prices and the steady increase in the purchasing power of

the Soviet ruble laid the foundation for the systematic and steady growth of the real financial income of the collective farms and farmers.

The abolition of goods rationing and the increased purchasing power of the Soviet ruble have substantially improved and will continue to improve on an increasing scale the role of bonuses paid for above-plan deliveries of agricultural produce and raw materials to the state, for increasing the harvest yields of all agricultural products, and raising the output of the animal industry. The enhancement of the economic value of procurement prices and the resultant increase in the income of the collective farm peasantry from socialized agriculture were among the most important prerequisites for strengthening labor discipline in the collective farms and the general consolidation of the collective farm system in the villages.

The Consistent Reduction of State Retail Prices in the Postwar Period

As pointed out earlier, the abolition of the ration card system and the change from multiple to uniform prices were accompanied by a reduction in the retail prices. The introduction of uniform retail prices reduced the total cost of mass consumption goods in the state retail trade by 57 billion dollars (in the first year alone). The reduction of state prices on mass consumption goods in turn brought about a price reduction on the collective farm and cooperative markets totalling 29 billion dollars. This consequently produced an annual saving for the population of about 86 billion dollars in the first stage of the retail price

reduction which occurred simultaneously with the introduction of the currency reform. As pointed out in the decision of the Council of Ministers of the USSR and the TsK VKP(b) of 1 March 1949, "that meant that the price reductions in the initial stage served to raise the purchasing power of the ruble, improve the ruble exchange rate in comparison with foreign currencies, increase the earnings of the workers and intelligentsia, and considerably reduce the peasants' expenditures on industrial goods."

The introduction of new and lower retail prices entailed definite losses for the state. However, as the TsK VKP(b) and the Soviet Government anticipated, the abolition of goods rationing and the rising living standard of the working masses brought about by lower prices produced such powerful stimuli for higher labor productivity and such a broad mass movement for economizing state resources and increasing industrial reserves that the state's losses were soon more than covered.

The powerful upswing of the national economy, the expanding production of mass consumption goods, and the overfulfillment of the plans in the field of socialist surplus accumulation enabled the Soviet state to create the necessary commodity and financial reserves to be used for further price reductions. This made it possible to implement the second phase of retail price reductions which was begun in 1948 and fully completed by 1 March 1949. During that phase the total reduction in the cost of mass consumption goods within one year in the state retail trade amounted to 48 billion rubles and in the entire retail trade to about 71 billion rubles.

Despite the extensive scale of state retail price reductions introduced in 1947-1949, the Soviet state was able to find sufficiently large reserves in its expanding socialist economy not only to compensate for the temporary losses in revenue but also to declare a new price reduction, the third one, in 1950.

In view of the growing purchasing power of the Soviet ruble, as a result of the consistent price reductions and the simultaneous depreciation of capitalist currencies, the Soviet Government considered it necessary to put the ruble exchange rate on a stable gold standard, according to the gold content of the ruble and on 1 March 1950 it discontinued the practice of using the dollar as a basis for determining the ruble exchange rate in relation to other currencies.

The great successes achieved by the national economy of the Soviet Union in 1950, the overfulfillment of the industrial production plans, the growing labor productivity, and the considerably lower costs of commodity production and circulation enabled the Soviet state to introduce the fourth postwar reduction of state retail prices on 1 March 1950, ranging from 15% to 20% on all major food products and on many types of industrial commodities. This price reduction enabled the population to save 27.5 billion rubles on its commodity purchases in the state and cooperative trade (computed on the basis of the 1951 commodity circulation volume). Besides the city population also benefited to the extent of about 7 billion dollars a year from the price reduction on the collective farm markets which followed the reduction of state retail prices.

The fifth reduction of state retail prices since the abolition of the ration card system, ranging from 10% to 30% and affecting all the major types of foodstuffs, became effective on 1 April 1952. The retail prices of books, including text books, were simultaneously reduced by an average of 18%. This last reduction amounted to a net annual saving for the population of over 23 billion rubles in its purchases in the state and cooperative trade network alone. Finally, the sixth price reduction on mass consumption goods, introduced on 1 April 1953, has produced the largest saving for the population during the past 3 years. The price reduction was extended to all the most important types of commodities. The prices on such mass consumption items as potatoes, vegetables, and fruits were cut in half and on other food products and industrial goods they were reduced by 5-30%.

This price reduction in the state and cooperative trade will produce a net gain for the population of 46 billion rubles. Besides, the city population also benefited to the extent of about 7 billion dollars a year from the price reduction on the collective farm markets which followed the reduction of state retail prices.

Thus throughout the entire postwar period following the abolition of the ration card system and the changeover to large scale retail trade the Soviet Union has been consistently reducing the prices on mass consumption goods. As a result the prices of mass consumption goods even before the 1953 price reduction had been cut by more than 1/2 as compared to the price level existing by the end of 1947, that is, when the ration card system was abolished.

The systematic reduction of retail prices and the resultant improvement of the material well-being of the Soviet people provide striking evidence of the fact that the basic economic law of socialism has been given free reign in the Soviet Union and that all the activities of the Communist Party and the Soviet Government, reflecting the requirements of that law, are motivated by their solicitude for the welfare of the people and for the maximum satisfaction of their constantly growing material and cultural needs.

The material basis for price reductions is the steady expansion and perfection of socialist production which is capable of insuring the systematic increase in the output of consumer goods, the productivity of labor in every branch of the national economy, and the reduction in the costs of commodity production and circulation.

The Abolition of the System of State Subsidies and the Wholesale Prices and Rate Reform in the National Economy of the USSR

The introduction of the currency reform was followed by a changeover to uniform, reduced state prices. Much was accomplished in the way of reducing the cost of commodity output and the necessary conditions were created for improving the wholesale price system in the national economy.

The system of state subsidies, designed to cover the losses sustained by the heavy industry under the plan, was indispensable in time of war. But when the USSR turned to peaceful construction the system of state subsidies could no longer be tolerated as it hampered the development of self-supporting operations of the

enterprises, weakened the incentive for reducing production costs, and contradicted the aim of the further enhancement of the role of the ruble in the national economy.

The object of self-supporting operations as a method of planned management of the state enterprises is to have the enterprises cover their own expenditures. The source of income of those enterprises is derived from the sale of their commodities to other production enterprises or state trade organizations at state-fixed prices. The movement of goods between socialist enterprises is carried out under economic agreements which call for mutual control by the respective economic organizations over the implementation of the agreements, the imposition of sanctions for agreement violations, and state arbitration in case of disputes arising in the course of the implementation of agreements. Under the system of state subsidies the final losses incurred by the enterprises are certain to be reimbursed. In this case however direct financing from the state budget becomes an important and frequently even decisive source of income in addition to the wholesale price. Thus the reimbursement of the enterprises' expenditures is attained through the one-sided increase in the state budget control over the economy and the simultaneous weakening of the control on the part of the economic organizations in the process of commodity circulation among the socialist enterprises.

The system of state subsidies invariably weakens the importance of economic agreements. The part of the enterprise's income consisting of the state subsidy does not come under the customer's control. The right to withhold payments as well as the right to impose sanctions for agreement violations applies

in effect only to the part of the enterprise's income derived from the sale of commodities at fixed prices.

The system of state subsidies does not affect the commodity circulation between the various branches of the socialist economy expressed in state wholesale prices but depreciates the role of the wholesale prices. They reimburse only part of the production costs of the enterprise. This being the case the wholesale prices lose much of their value as a social criterion of production costs and the consumers lose much of their interests in the control over price-fixing and the maintenance of fixed prices.

The isolation of prices from production costs in a number of heavy industry branches amounted to, first, underestimating the commodity volume produced by the heavy industry and, second, underestimating the expenditures of the various industries using the commodities sold at below-cost prices. This in turn was conducive to an artificial decrease of the material expenditures ratio to the cost of industrial commodity production which could not fail to weaken the incentive to save raw and other materials and fuel.

The interests of the further expansion of the national economy called for the enhancement of the role of the economic instruments of the Soviet state and the strengthening of the system of self-supporting operations but that could not be realized without the abolition of state subsidies. The abolition of state subsidies however could not be introduced immediately after the war as that would have meant the fixing of wholesale prices on the basis of the high costs existing in the first period of the post-war reconstruction of industry.

The abolition of state subsidies could be realized on the basis of reduced production costs in the heavy industry. And that in turn required the realization of a number of measures designed to eliminate the wartime survivals in the field of commodity distribution, the introduction of a currency reform, the enhancement of the role of wages, and their utilization for the purpose of increasing labor productivity.

The abolition of the system of state subsidies was introduced on 1 January 1949, under conditions of a powerful economic upswing in the USSR and the successful fulfillment and overfulfillment of the plans in regard to the reduction of production costs. In 1948 the cost of commodity production (in comparable prices) was reduced by 8.6% and in 1949 by 7.3%. This factor alone however was insufficient to insure the abolition of the system of state subsidies despite the considerable successes achieved by the industry in the reduction of production costs.

It was found necessary in this connection to raise the wholesale prices of some extracting industries (coal, ore, and timber) where the wholesale prices were found to be largely unrelated to the cost of production due to the large wage increases made during the war.

As for the processing branches of the heavy industry, the existing wholesale prices on their commodities as a whole were in line with the planned production costs provided for in the Fourth Five-Year Plan.

Moreover certain types of commodities made by those industries were subject to turnover tax. This circumstance permitted

the considerable increase in costs, brought about by the increased wholesale prices on the commodities of the extracting industries operating at a loss, to compensate the extracting industries by reducing profits, abolishing the turnover tax, and allowing only partial price increases whenever the increases in the cost of raw materials and fuel were particularly high or whenever it became necessary to correct the wrong value correlations between various groups of products.

The increased costs of the light and food industries, brought about by the higher wholesale prices of the commodities of various branches of the heavy industry as well as higher freight rates, were compensated by reducing the turnover tax without increasing the wholesale prices. What is more, after 1 March 1949 the wholesale commodity prices of the light and food industries were reduced in proportion to the latest price reduction on foodstuffs and industrial consumer goods.

These unequal changes in the wholesale prices on the output of the industries produced the following structural changes in the value of industrial commodities as expressed in the existing wholesale prices.

First, the correlation between the production of the means of production and the output of consumer goods at the existing prices changed in favor of the means of production.

Second, the volume of commodities produced by the extracting industries was increased in proportion to the total output volume of the heavy industry.

And third, following the reduction in the turnover tax, the share of the cost and profit in the combined industrial commodity output, expressed in existing prices, was increased.

This meant a more exact computation of the share of the heavy industry output in the combined national product.

Substantial changes have taken place also in the cost of industrial commodity production:

(a) There was an increase in the proportional share of material expenditures in the total costs of industry.

(b) The proportion of mineral raw materials and fuel of the total material expenditures was increased.

(c) There was a better definition of and accounting for the value of the means of production, supplied by heavy industry, in the production costs of the light and food industries.

The introduction of new wholesale prices and freight rates insured a more precise estimate of the material expenditures included in the cost of production and thereby strengthened the incentives to save on materials.

At the same time an improvement was made in the correlation between the wholesale prices on interchangeable types of heavy industry commodities as well as in freight rates.

As for the various types of fuel, there was an improvement in the correlation between the prices on coal and peat, as may be seen from the following table of comparative figures.

	Unit of Measure	Coefficients of Value (the price of one t of coal taken as 100)	
		Up to 1949	Since 1 January 1949
Donets Basin coal "AK"	t	100.0	100.0
Peat (on the average)	t	57.5	35.7

The compilation of a new price list on coal fuel called for the use of prices to stimulate the extraction and economical use of coking coal. Thus the price of coking coal in the western coal basins was fixed at 25% above the average price of coal fuel and in the eastern basins it was set at approximately 20% above the average price of coal fuel. While the unprofitable operations of the coal industry as a whole were planned to be eliminated after 1950 normal profitable operations in the production of coking coal were started in 1949.

A great deal was done in the period of the wholesale price reform toward the elimination of the disparities in the prices of local coal and the coal brought in from distant areas, even though that problem has not as yet been fully solved.

In the eastern areas of the USSR the new transportation rates made it possible to equalize the cost of imported and local coal (in terms of ideal fuel) for consumption purposes and, in a number of cases, even to improve the "competitive value" of local coal in relation to imported coal. For example the calculations showed that after the introduction of new wholesale prices of coal and new coal-hauling rates, the cost of a ton of live steam to the Molotov city enterprises using Kuznetsk coal was 20.6 rubles and to those using Kizelovsk coal it was 18.1 rubles.

The respective costs per ton of live steam at the Chelyabinsk enterprises were: with the use of Kuznetsk coal, 18.40 rubles; Karaganda coal, 19.65 rubles; and local Kizelovsk coal, 16.8 rubles.

In the western and southern areas of the USSR, the circumstances affecting the wholesale prices on coal fuel are different. But there too the correlation between the prices on imported and local coal have in the main been improved. Before the 1949 reform the wholesale price of the Moscow Basin run-of-the-mine coal "BR" had been fixed at about the same level as the Donets anthracite "ARSh" even though the heating value of the "BR" coal is about 2.4 times lower than that of the "ARSh" coal. In the new price list effective since 1 January 1949 the wholesale price on the Moscow Basin coal "BR" was fixed at 20% lower than the price of the Donets anthracite "ARSh." At the same time the transportation rates on the Moscow Basin coal were fixed (in absolute figures) at a considerably lower figure than the freight rates on the Donets coal. But, taking into account the lower heating value of the Moscow coal, the cost of a ton of live steam to the Moscow consumers was still cheaper when Donets coal was used. This called for a number of additional measures designed to use the prices as an encouragement for the consumption of Moscow coal.

With a view to restricting the expenditure of the most deficit nonferrous metals, changes were made in the correlation of prices of lead, zinc, and other nonferrous metals.

The practice of granting unfelled timber to the lumber producers free of charge, which hampered the extension of lumber production into the interior of the forest massifs and slowed the

rational organization of lumber utilization, was abolished with the introduction of the wholesale price and rate reform.

The computation of the new railroad freight rates took into account the necessity of encouraging a more rational utilization of transportation facilities and a reduction in the long distance hauling on the part of freight shippers.

In addition to encouraging the freight shipper to make more rational use of transportation at the new rates, measures were also taken to encourage the railroads in this respect. Thus under the previous rate scale the payments for freight hauling were computed on the basis of the actual hauling distance. The accounts between the Railroad Ministry and the other roads in turn were also based on the ton-kilometer unit. The volume of freight hauling was calculated in the same way. This weakened the incentive to make use of short distance hauls inasmuch as the extra hauling distances were not reflected in the financial situation of the railroads (all expenses were fully covered by the shippers) and yet made it appear that the freight plans were overfulfilled.

To put an end to such round about methods of freight shipping the shipping costs under the new rates were computed on the basis of the shortest distance between the shipping points under consideration.

The new freight shipping rates served to improve the correlation between the costs of rail, river, and truck transportation. The freight shippers are charged cheaper rates when shipping by water whenever such water routes run parallel to the railroads as

well as when shipping along routes involving both rail and water transportation.

The introduction of the wholesale price reform was accompanied by a number of changes in the prices of price formation itself. The list of industries whose commodities were subject to turnover tax was revised. In view of the fact that the turnover tax levied on all the branches of the heavy industry (except the oil industry) amounted to only 0.5%-3% of the wholesale prices, it was found necessary to completely abolish the turnover tax, following the introduction of the new wholesale prices, on the commodities of the entire ore-mining industry, nonmetallic minerals, fuel (except oil products), the products of the lumber and woodworking industry, building materials, metals, chemical industry products, heat energy, machinery, and equipment.

Included in the new wholesale price list were 2 types of prepaid delivery, FOB destination (railroad) point and FOB shipping (railroad) station. Therefore most of the industries using FOB plant changed to FOB shipping station. Besides, all the cost of tare and packing, except special types of tare specified by the customers, are borne by the shippers. This measure serves to insure a high degree of stability of the list prices as it reduces the possibilities of making all sorts of additional charges above the fixed prices by agreement of the parties involved (to defray the cost of delivering the goods to the shipping station, pay for the loading and the cost of tare and packing).

Wholesale Price and Freight Rate Reductions in 1950-1952

The wholesale price and freight rate reform introduced on 1 January 1949 entailed a certain increase in wholesale prices and rates. That increase however was of a temporary nature. Since the wholesale price and rate reform contributed to the improvement of self-supporting operations and encouraged the reduction of production costs by establishing a proper ratio between the cost of heavy industry commodities and freight rates, it created the material prerequisites for further reductions in the newly fixed prices and rates. The new great successes achieved in 1949 in the development of industry, transportation, labor productivity, and production cost reductions as a result of the spurt of labor enthusiasm among the Soviet people, the strengthening of the Soviet ruble and self-supporting operations as well as the emergent possibilities for a considerable further cut in production costs in 1950 made it possible to reduce the new wholesale prices and freight rates introduced on 1 January 1949.

The wholesale prices of metals, chemicals, building materials, lumber, paper, and commodities of the machine-building industry as well as the rates on electric power and railroad freight transportation were reduced in the first phase of the wholesale price and rate reduction that went into effect on 1 January 1950.

Subsequently, with a view to reducing the costs of construction, additional wholesale price reductions were introduced, effective 1 July 1950, on round timber, saw timber and woodworking products, run-of-the-mill rolled ferrous metal, building materials, and equipment as well as reductions in the cost of freight hauling by rail, water, and trucking transportation. The scale of the

reductions in the wholesale prices of industrial commodities made by July 1950 may be judged from the fact the wholesale prices as of 1 July 1950, were below the price level of 1 January 1949.

Pig iron	by 20%
Average quality steel	by 37-47%
Steel and cast-iron pipes and gas cylinders	by 15-50%
Commercial softwood lumber	by 10%
Products of the rubber and chemical industries	by over 20%
Cement	by 20%
Benzine	by 20%
Machinery and equipment	by 20-30%

The following reductions were made at the same time in freight rates: on the railroads, in regard to various types of freight, from 10% to 40%; river transportation of lumber, construction materials, mitis metals and machines, from 15% to 25%; truck transportation, 8%; and cartage 12%.

Such considerable reductions in the wholesale prices and freight rates contributed to the improvement of the value correlations in the national economy.

An over-all improvement was made in the correlation between the prices on ferrous and nonferrous metals as well as between the various types of metals in each of these groups.

In the field of ferrous metals improvements were made in the correlation of prices on standard and low alloy steels. The prices on "SHL1," "SHL2," "SHL3," and "SHL4" low alloy steel were additionally reduced by 10% as compared with the corresponding substitute brands of steel. This reduction was designed to encourage the use of low alloy steel in construction.

In the field of nonferrous metals, changes were made in the correlation between aluminum and magnesium alloys. These changes were in part determined by the desirability of popularizing the use of magnesium-aluminum alloys in the national economy.

Additional improvements were made in the correlation between the prices of Donets and Moscow Basin coal. While the price of Donets coal was left unchanged and its freight rate reduced by only 10% the price of Moscow Basin coal was reduced by 25% and its freight rate by 50%.

Improved also were the value correlations between different groups of construction materials. Commercial lumber prices were reduced by 10% while brick prices were cut by 24% and cement prices by 20%. The purpose of this new change in price relations was to encourage a more economical use of lumber in construction. The price reductions on lime were greater than those on cement which is due to the necessity of encouraging the use of locally produced binding materials for construction purposes.

Changes were made in the correlation between the prices of round timber (saw logs) and saw lumber. The 1949 prices on saw logs were reduced by 10% while the saw lumber prices were cut by 25%. This encourages the consumers to import saw lumber instead of saw logs which is economically more expedient from the point of view of the rational utilization of transportation facilities.

Reductions were made in the prices of coal and shale, peat, electric and thermal power, ferrous metals, chemicals and rubber industry products, paper and woodworking industry products, and building materials as well as all types of machines and equipment.

The largest cuts were made in the wholesale prices of machines and equipment and this made the wholesale price level of the commodities of the machine-building industry considerably lower than before the war. The great progressive importance of these reductions is that they serve as an additional encouragement to introduce new machinery in the national economy on a large scale.

The reduction in wholesale prices was accompanied by considerable cuts in freight rates on railroad, river, sea, and truck transportation.

In addition to lowering the price level and improving the value correlations in the national economy, a number of measures were taken to systematize the process of price formation. First of all, the principle of establishing the same prices for the same commodities has been pursued more consistently than during the wholesale price reform. To that end, all the similar products made by the respective branches of industry, regardless of the jurisdictional status of the enterprises producing the mentioned products, were as a rule included in the new price lists for various types of commodities. Such an approach to the compilation of price lists contributed a great deal to the elimination of disparities between the prices for the same commodities produced by different manufacturers. The unification of the wholesale prices existing in the various branches of industry however cannot yet be considered as completed.

An important characteristic of the wholesale price and rate reduction of 1950 is that it was carried out after the system of state subsidies to the heavy industry and transportation was abolished.

After 1 January 1950 the granting of subsidies to certain branches of the national economy for capital repair purposes was abolished together with the practice of reimbursing the differences between production costs and wholesale prices from the state budget. The amortization deduction rates were fixed according to the capital repair requirements of the particular branches of industry. For this purpose temporary amortization deduction rates were fixed for 1950 and with some changes continued in the following years.

A new substantial reduction in the wholesale prices of the industry and in freight rates was made after 1 January 1952. Despite the 3 wholesale price and rate reductions already carried out since 1 January 1950, the national economy of the USSR attained a high level of profitable operations as a result of decreased commodity production costs. The 1953 state budget of the USSR provides for a profit increase in the national economy up to 111.5 billion rubles which is approximately 3.5 times as much as in 1940.

The large scale reductions in the wholesale prices and freight rates and the simultaneous achievement of sound, profitable operations in industry and transportation provide striking evidence of the great strides made by heavy industry, transportation, and the Soviet currency system in the postwar period. The fact that the Soviet state was able within a short period of time following the end of the war not only to restore and further expand the heavy industry but also to raise it to a higher technical and economic level, that by the end of the Fourth Five-Year Plan that industry was not only capable of operating at a profit but also to make considerable reductions in the wholesale prices, offers convincing

and irrefutable proof of the enormous vitality of the socialist system and its material foundation, the heavy industry.

CONCLUSION

Commodity production and its economic categories cannot be regarded as something self-sufficient and independent of surrounding conditions. The peculiar feature of commodity production is that it cannot be identified with any one type of social and economic structure in particular.

The purpose and functions of the economic instruments of commodity production (goods, money, prices, etc) cannot therefore remain unchanged and independent of the surrounding economic conditions. The historic changes of social and economic structures and their fundamental economic laws are accompanied by changes in the functions of the economic instruments of commodity production. They lose their old values and acquire new ones in keeping with the emerging new economic conditions.

The existence of commodity production within certain limits in a socialist society also determines the existence of respective economic instruments of commodity production. Also, the socialization of the basic means of production, the operation of the basic economic law of socialism, and the law of systematic, proportional development of the national economy are conducive to a basic change in the functions of these instruments and in the nature of their operation. "Such is the situation in regard to both commodities and money in the USSR's economic activities, as well as to the banks which, having lost their old functions and acquired new ones, retain their old forms which are utilized by the socialist system"

(Stalin, I. V., Ekonomicheskiya problema sotsializma v SSSR, page 53). The price represents one of such instruments of commodity production used by the socialist system.

There has been a radical change in the functions and purpose of prices under socialism as compared to those under capitalism. Competition and production anarchy under capitalism are manifested in the disorganized and spontaneous movement of commodity prices. The law of systematic and proportional development of the national economy, based on the socialization of the basic means of production, spells the objective possibility and necessity of price planning. Reflected in the price planning is one of the features of the utilization of the law of value in the interests of the socialist system.

In view of the socialization of the means of production and the operation of the law of systematic and proportional development of the national economy, the law of value does not and cannot control socialist production. Inasmuch as commodity production in a commercial sense is continued within certain limits in a socialist society, commodity production and circulation cannot fail to influence production. This is manifested in the practice of pecuniary payment for the work done by the members of the socialist society, in the necessity and expediency of using the outward appearance of commodities and value forms for controlling the expenditure of labor and the cost of enterprises, and in the management of the enterprises within the state sector of the socialist economy on a self-supporting basis.

Under such circumstances it is possible to use prices as an instrument of the economic policy of the socialist state in

conformity with the requirements of the basic economic law of socialism and the law of systematic, proportional development of the national economy.

With the aid of the planned system of state prices the Soviet state (a) distributes the USSR's national income in keeping with the aim of socialist production, that is, the maximum satisfaction of the constantly growing material and cultural needs of the whole society, (b) creates additional incentives for implementing the plans for the development of industrial and agricultural production, (c) maintains control over the production cost and circulation of goods in the national economy facilitating the systematic reduction in such costs on the basis of the steady perfection of socialist production, (d) stimulates the rational utilization of material resources and transportation facilities in the national economy, and (e) organizes the population's demand for consumer goods and contributes to the all-round expansion of commodity circulation.

The operation of the basic economic law of modern capitalism in the sphere of prices is manifested in the rising living costs and growing monopoly prices. The monopolies take advantage of the rising living costs to exploit the majority of the population of their respective countries, to engage in the systematic plundering of the peoples of other countries, and to secure the highest possible profits for themselves. The operation of the basic economic law of socialism in the sphere of prices is manifested in the systematic and planned reduction of prices. The steady expansion and perfection of socialist production, the steady increase in the volume of goods channeled by the state into the

system of organized commodity circulation, and the reduction in the cost of commodity production and circulation in the national economy constitute the material basis for the Soviet price reduction policy. The reduction of prices on the other hand, signifying as it does a firmer Soviet ruble with a higher purchasing power and an increase in the real income of the working people, contributes to the further material encouragement to expand and perfect socialist production.

Thus the 2 antithetical lines of modern economic development determined by the operations of 2 antithetical basic economic laws, capitalism and socialism, find their expression in the nature of price changes and in the way they affect the condition of the working people in the capitalist countries on the one hand and the countries of socialism and people's democracy on the other.

The unrestrained rise in the living costs in the countries of monopoly capital is due particularly to their policy of militarization and preparation for a new war with a view to securing the highest possible profits for the monopolies.

Entangled in insoluble and growing contradictions and fearing the impending economic depression, the monopolists and the governments fully subservient to them embarked upon a course of unleashing a new world war. The US Government budget for 1952-1953 provides 58.2 billion dollars for the maintenance of the armed forces alone. This means that the US direct military expenditures in the past 5 years have increased almost 5-fold. War orders have become an unprecedented source for the enrichment of the big monopolies.

The terms of the US Government contracts with the monopolies for the production of ammunition provide for a fabulously high profit level. The monopolies are first of all guaranteed very high and increasing prices for their war products. In less than 6 months following the outbreak of US aggression in Korea, the prices on radar installations in the US were increased 3 times, the cost of airplanes was doubled, the price of gasoline for the army went up more than 50%, and the price of rubber was increased almost 5-fold.

The US Government grants enormous sums of money to the monopolies at the expense of the taxpayers in the form of various privileges and subsidies for the development of war production. The corporations are permitted to include in the prices of their war orders unheard-of annual amortization charges amounting to 1/5 of the value of the basic capital. Corporation expenditures on the construction of new enterprises are financed by government-granted rebates on profit taxes. The government also provides extensive insurance of private credits used for the development of the war industry. Therefore the total amount of profit made by the American monopolies in 1951 (before tax deductions) was 13 times as large as in 1938. The sources used for covering the armament expenditures and the fabulous profits of the financial oligarchy in the US and other capitalist countries are the intensified exploitation of the working people and the restricted use of consumer goods by the masses of the people due to rising taxes and prices.

Before World War II every American spent on the average \$8.75 a year to cover the government's military expenditures.

The amount spent for these purposes in 1952-1953 was \$413.00. In 1951 the taxes collected from the population amounted to 75 billion dollars while the total cost of feeding the population during the same year was only 55 billion dollars.

The growing resistance of the people to the further increase in the already monstrously high taxes compels the ruling circles of the capitalist circles to resort with increasing frequency to such concealed and camouflaged methods of financing the armament race at the expense of the working people as inflation.

The most striking expression of inflation is the growing retail prices on consumer goods which means a rising cost of living. According to the figures of the American electricians' union, the "cost of living" in the US in 1952 was 289% of the prewar level while the prices of foodstuffs were 334%. The cost of living in Britain in 1952, even according to official and deliberately minimized figures, was 2.25 times the prewar level. In 1952 alone the retail price of bread was increased by 25%, meat 20%, ham 92%, cheese 80%, butter 20%, sugar 17%, etc. Prices were also increased on a number of industrial commodities. Growing prices reflect a reduced per capita consumption of food, clothing, and other goods by the workers of the capitalist countries. In the US the average per capita consumption of butter in 1952, as compared to the prewar period, was reduced by 46%, beef by 14%, and flour by 16%. In France the consumption of meat in 1949-1951 was reduced by 24%.

The systematic price reductions in the USSR are based on the planned and depressionless development of the peacetime Soviet economy geared to the maximum satisfaction of the constantly growing material and cultural demands of the socialist society. Always

devoted to the policy of peace the Soviet Union does not reduce but expands the civilian industry and peaceful economic construction, does not abandon but on the contrary continues its policy of reducing prices.

The postwar development of the Soviet economy is taking place against the background of a powerful upswing in every branch of the national economy, a stronger currency system, and a steady increase in the national consumption. In 1952 the industrial output of the USSR was approximately 2.3 times higher than in the prewar year 1940. The prewar level of agricultural production has been greatly exceeded.

A striking manifestation of the great economic advancement of the USSR is the steady growth of its national income. In 1952 the national income of the USSR was more than double that of 1940. Since there are no exploiting classes in the USSR and the entire national income belongs to the working people and their state, the expanding volume of goods in the national economy and the growing national income of the USSR made it possible to introduce 6 reductions in the retail prices on consumer goods during the 1947-1953 period.

Compared to 1947, the 1952 prices on the most important types of foodstuffs in the USSR, US, Britain, and France were expressed in the following percentage figures (Mikoyan, A., speech to the Nineteenth Congress of the KPSS, Gospolitizdat, 1953, page 17).

	<u>USSR</u>	<u>US</u>	<u>Britain</u>	<u>France</u>
Bread	39	128	190	208
Meat	42	126	135	188
Butter	37	104	225	192
Milk	72	118	130	174
Sugar	49	196	233	376

After the latest cut in prices on 1 April 1953 the price level of the most important food products in the USSR was further reduced, showing the following relation to the 1947 level (in %): bread 35%, meat 36%, butter 33%, and sugar 44%.

As a result of the systematic price reductions and increasing wages of the workers and employees, of the increasing financial and material income of the peasants and other payments to the population from the state budget, the real per capita income of the workers and employees in 1951 was about 57% higher than in 1940 and the real per capita income of the peasants was approximately 60% higher than in 1940. The real income of the working people was further increased by 7-8% in 1952.

The reduction of retail prices on consumer goods in the USSR is not a temporary campaign dictated by any particular marketing reasons. It is an objective pattern of development of the socialist economy. Price reductions are made in conformity with the major requirements of the basic economic law of socialism and the ultimate purpose of socialist production.

In a socialist society, where there are no exploiting class and the fruits of social labor belong to all the working people, the steady expansion and perfection of socialist production mean

an increasing volume of consumer goods for the population. And since the distribution of goods in a socialist society is carried out through the medium of commodity-money relations, a higher rate of consumption implies an increasing effective demand facilitated by reduced prices.

It should be pointed out however that such a sweeping measure as price reduction always requires the creation of the necessary material prerequisites for it.

To continue the practice of retail price reductions it is necessary first, to make certain that the volume of consumer goods to be sold to the population increases at a considerably faster rate than the financial income of the population, as only under such conditions can the material prerequisites for a price reduction be created, and, second, to make certain that the continued reduction in the costs of production and commodity circulation is large enough to permit a reduction in prices without affecting the process of socialist surplus accumulation.

That means that the realization of a retail price reduction requires the largest possible increase in the flow of commodities from both centralized and local production sources. This means also that the industry and trade organizations must study consumer demand and see to it that only the commodities actually required by the population are put into circulation. They must not permit the production of unsalable goods which become frozen material assets and cannot be used as a basis for price reduction. That means further that the increasing volume of goods should be produced in larger varieties and better quality. It means at the same time that the rate of increase in labor productivity in every field of

material production must always be faster than the growing wages and other financial income of the working people.

That means, finally, that a rigid economy regime should be maintained in every branch of the national economy.

The basis for retail price reductions is the systematic reduction in wholesale prices which is in turn made possible by economizing on the cost of production and circulation. The simultaneous expansion of socialist surplus accumulation and consistent price reductions can be realized only by systematically economizing on production costs. That means that the implementation of the Soviet price policy requires the continued mobilization of new sources for raising the productivity of social labor and for saving added and embodied labor in the national economy of the USSR.

The directives of the Nineteenth Party Congress on the Fifth Five-Year Plan call for the maintenance of a very rigid economic regime in every large and small sector of the national economy as an important precondition for the fulfillment of the national economic tasks outlined in the new Five-Year Plan and the improvement of the welfare of the people.

The increases in the real wages of workers and employees by at least 35% and the income of collective farmers by at least 40%, provided for by those directives, require a considerable cut in the cost of commodities and their circulation in all branches of the national economy. In the course of the five-year plan the cost of industrial commodities should be reduced by 25%, construction costs by no less than 20%, railroad freight rates by 15%, and retail trade costs by 23%.

The realization of such broad cost reduction measures in the national economy calls for the maximum utilization of technical progress as a method of raising the productivity of social labor, the complex mechanization of all hard and labor consuming work, the improvement of production culture, and, most important, the rhythmic and smooth operation of all enterprises and the complete elimination of losses, unproductive expenditures, and mismanagement of production resources.

The policy of systematic price reductions on consumer goods demands, further, an all-round increase in the volume of agricultural products as well as in the output of the light and food industries. The directives of the Nineteenth Party Congress on the Fifth Five-Year Plan for the development of the national economy of the USSR provide for a sharp increase in the gross output of agriculture and animal husbandry on the basis of higher harvest yields and animal productivity. In view of the growing resources of agricultural raw materials and the large capital investments in the basic stocks of the light and food industries, the output of these industries should be increased by at least 70% during the five-year plan. The successful realization of these five-year plan tasks will be largely determined by the price reductions, scheduled to be introduced during the five-year plan, and the growing real wages of workers and employees as well as the income of peasants.

The directives of the Nineteenth Party Congress provide for a considerable expansion of the commodity circulation in the USSR as an important prerequisite for the realization of systematic price reductions and the policy of raising the cultural level of the Soviet people.

• During the Fourth Five-Year Plan the retail commodity turnover in the state and cooperative trade considerably exceeded the prewar level. In the course of the Fifth Five-Year Plan the state retail goods turnover must be increased by another 70%.

The decisions of the September Plenum of the TsK KPSS and the speech by the Chairman of the Council of Ministers USSR, G. M. Malenkov, provide striking evidence of the fact that the Soviet state, led and directed by the KPSS, has every possibility for the successful fulfillment of the five-year plan in regard to increasing national consumption within a shorter time than provided for by the five-year plan.

The achievements made in the development of heavy industry have enabled the party and the Soviet Government to organize a sharp increase in the output of consumer goods. The object is to produce a sharp increase in the supply of foodstuffs and industrial goods to the population within 2-3 years by carrying out this aspect of the five-year plan considerably ahead of schedule.

The backwardness of a number of important branches of agriculture must be overcome so that the supply of foodstuffs to the population and agricultural raw materials to the light and food industries may be increased and so that a higher material welfare level for the entire collective peasantry may be insured. The decisions of the September Plenum of the TsK KPSS on urgent measures to improve the operations of the backward branches of agriculture represent a large scale program for the development of agriculture designed to improve the operations of all its branches and create an abundance of agricultural products in the USSR.

The Soviet economic system, under which the object of social production is the maximum satisfaction of human needs, a system designed for the uninterrupted development of production on the basis of advanced technology, has demonstrated to the whole world its superiority over the capitalist system and the inevitability of the ultimate triumph of communism.

Spurred by enormous political and production enthusiasm, the Soviet people are implementing the directives of the Nineteenth Communist Party Congress on the Fifth Five-Year Plan for the development of the USSR and the measures taken by the TsK KPSS and the Soviet Government for the solution of the urgent problems in industry and agriculture. They look upon the realization of those measures as a guarantee of prosperity for the socialist fatherland and a striking confirmation of the great concern displayed by the Communist Party and the Soviet Government for the satisfaction of the growing needs of the workers.

Under the tested leadership of the Communist Party which directs and leads the forces of the Soviet society the Soviet people will successfully solve the historic problems they are facing.